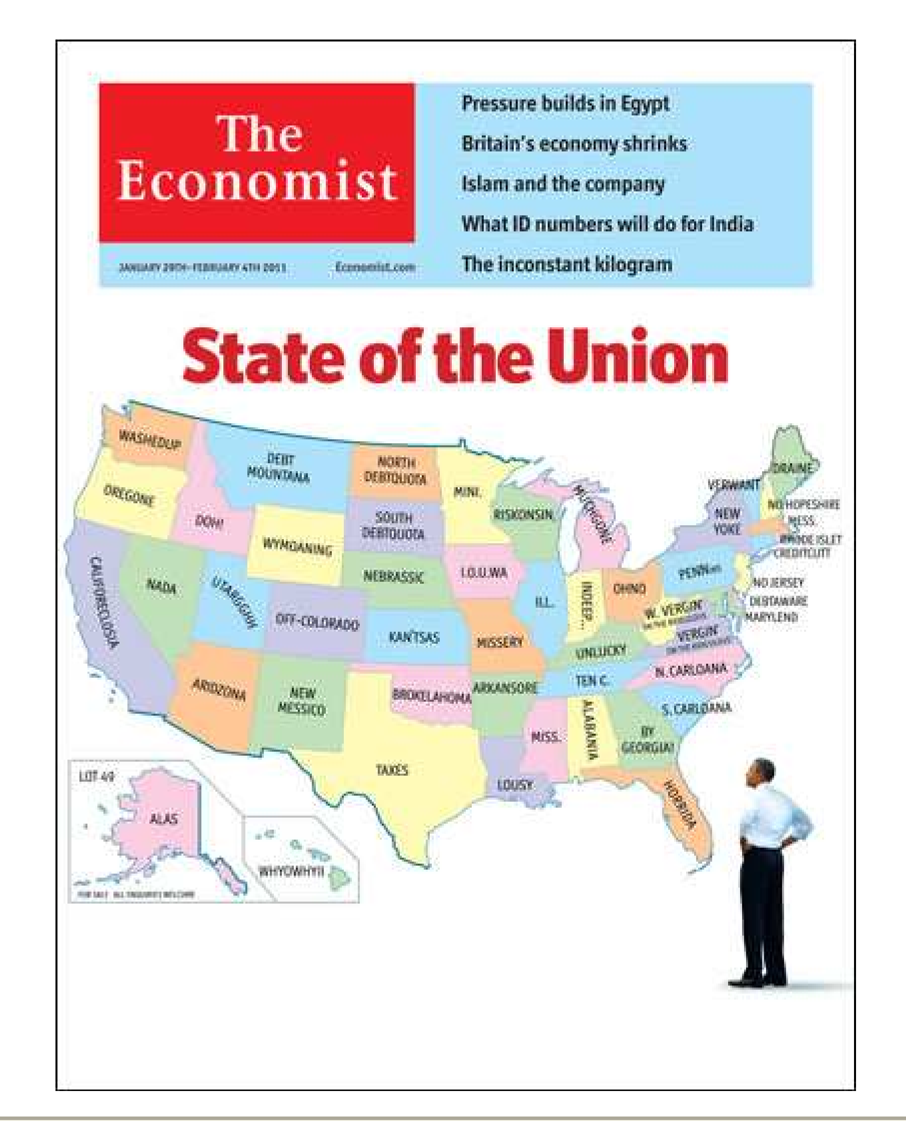
The Economist

January , 2011



Politics this week

Jan 27th 2011 | from PRINT EDITION



A suicide bombing at **Moscow's** Domodedovo airport killed 35 people and injured more than 100. There were no claims of responsibility but suspicion inevitably fell on Islamists from Russia's restive north Caucasus, who have been responsible for previous terrorist attacks. President Dmitry Medvedev sacked several police and security officials for failing to prevent the attack. See article

A week of political drama in **Ireland** saw Brian Cowen, the prime minister, step down as leader of his party; the Greens withdraw from the coalition government; and the accelerated passage of financial legislation. An election is now likely to be held on February 25th, two weeks earlier than planned. See article

In **Britain** Alan Johnson resigned as Labour's shadow chancellor for personal reasons. He was replaced by Ed Balls, a more pugnacious political performer. Andy Coulson, chief spin doctor to the prime minister, David Cameron, also stepped down as a long-running scandal over phone-hacking allegations at the *News of the World*, a tabloid newspaper once edited by Mr Coulson, refused to die. See article and article

Three people were killed in anti-government protests outside the prime minister's office in **Albania**. Prosecutors issued arrest warrants for six members of the republican guard. See article

Portugal's president, Anibal Cavaco Silva, won re-election with over half of the vote. Some speculated that he could use his power to dissolve the Socialist government should Portugal seek an international bail-out.

Moving on

There were signs of an end to **Haiti's** political impasse when a member of the ruling party said its candidate, Jude Celestin, would withdraw from a run-off election for the presidency, leaving it to be contested by Mirlande Manigat, a constitutional lawyer, and Michel Martelly, a popular musician. This followed strong pressure from the United States for Mr Celestin to withdraw.

A French ship began laying an undersea fibre-optic cable from Venezuela to **Cuba**. It will bring fast broadband to Cuba for the first time.

In **Canada** Ed Stelmach, the Conservative premier of Alberta, announced he would resign despite enjoying a huge majority in the legislature. He was insufficiently right-wing for many in Canada's most conservative province. See article

Satellite imagery

Barack Obama used his **state-of-the-union** speech in Congress to call for more investment in research and infrastructure in order that America can compete with a surging China and India, saying their rise was another "*Sputnik* moment" requiring clever innovation. He also proposed a five-year freeze in discretionary spending, and more defence cuts. See article

The Congressional Budget Office forecast that this year's **budget deficit** would swell to a record $1.5 trillion, $400 billion of which is down to the tax-cut and unemployment insurance package passed by Congress in December.

Rahm Emanuel's run to be mayor of **Chicago** was stuck in the sands when a court ruled he did not meet residency requirements and should be struck off the ballot. Illinois's Supreme Court ordered that his name be printed on voting sheets while it considered the matter.

Contagion effects



Protests in **Egypt**, apparently prompted by the recent ousting of Tunisia's strongman, Zine el-Abidine Ben Ali, erupted in at least a score of towns, including Cairo, where 30,000 people blocked a central square, and Alexandria. They called, among other things, for the removal of President Hosni Mubarak, who has been in power for 30 years. See article

There were also large demonstrations in Sanaa, the **Yemeni** capital, demanding that Ali Abdullah Saleh step down as president. He too has been in power for 30 years. See article

In **Tunisia**, a fragile transitional unity government struggled to restore order, promising elections in six months. Some people suggested that General Rachid Ammar, the army commander who is credited with persuading Mr Ben Ali to flee, should replace the current prime minister, Mohammed Ghannouchi, a technocrat who loyally served under the previous regime. See article

Leaks of discussions between **Israeli** and **Palestinian** negotiators, aired on Al Jazeera, the Arabic satellite channel, put both sides in a bad light. The leaks sought in particular to damage the Palestinian leadership under Mahmoud Abbas, portraying it as truckling to the Israelis by offering more generous concessions than publicly admitted. See article

A Sunni telecoms tycoon, Najib Mikati, became **Lebanon's** prime minister, with the backing of Hizbullah, a Shia party-cum-militia whose influence is waxing. The United States, Israel, France and Saudi Arabia were all worried. See article

Talks took place in Istanbul between the governments of six big countries and **Iran** over its nuclear ambitions. They got nowhere.

A show of no confidence

Hamid Karzai, **Afghanistan's** president, opened a new session of parliament, four months after elections that he claimed were fraudulent. Last week Mr Karzai said that the new parliament would be postponed pending further inquiry into the voting; he complained of being pushed into the inaugural session by "foreign hands". See article

Australia's government announced plans to finance the repair of an estimated $5 billion in damage wrought by recent flooding.

China introduced unexpectedly tough measures to cool the property market, including bigger downpayments and a requirement that local governments set price targets. Shanghai announced a limited property tax.

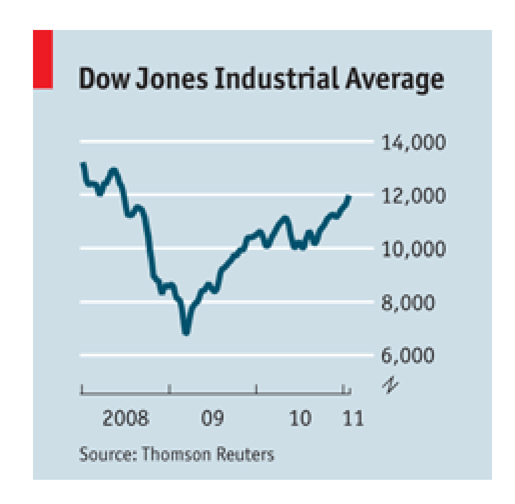
Protesters in **Thailand** took turns swamping the streets of Bangkok, again. First came around 30,000 anti-government redshirts to demand the release of their movement's leaders, who were arrested amid last year's paralysing demonstrations. A smaller number of yellowshirts, who have supported the government of Abhisit Vejjajiva in the past, raised their own voices in protest two days later on the ground that it has not shown sufficient spine in a border dispute with Cambodia.

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Business this week

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America's **Financial Crisis Inquiry Commission**, chaired by Phil Angelides, a former California state treasurer, produced its final report into the events that led to the banking system's meltdown in 2008. It concluded that the crisis was "avoidable" and spread the blame far and wide among policymakers and bankers. The commission's Republican members delivered a dissenting report, which gave greater weight to global factors. See article



The Dow Jones Industrial Average stockmarket index pushed above 12,000 on January 26th for the first time since June 2008.

The chairman of a commission reviewing the structure of **British banking** gave a speech outlining his thinking. Sir John Vickers said that banks should guard against future catastrophe by raising more capital and compelling creditors to take bigger losses, and that retail-banking operations should be legally "ringfenced" from investment banking. But Sir John dropped a strong hint that Britain's banking behemoths should not be broken up. See article

Getting ahead of the markets

In an effort to boost confidence in its banking sector, **Spain** ordered all listed banks in the country to increase their minimum core-capital ratio to 8% of risk-weighted assets by the autumn. Some unlisted firms may need to raise their buffers even further. The government also adjusted regulations to allow it partially to nationalise Spanish *cajas*, or savings banks, that are undercapitalised by taking equity stakes in them for up to five years.

European finance chiefs breathed a sigh of relief as the first bond issued by the **euro zone's** European Financial Stability Facility was snapped up by eager investors. The euro5 billion ($6.8 billion) maturity attracted total bids in excess of euro40 billion; traders reported that they could not remember such strong demand for such a big bond issue.

Japan's long-termsovereign credit-rating was downgraded a notch by Standard & Poor's to AA-, the first cut since 2002, because of concerns about the country's high debt burden.

Snow growth

Britain's GDP decreased by 0.5% in the fourth quarter of 2010 compared with the previous three months. The initial estimate surprised most economists, who had forecast at least some growth, and reignited fears of a "double dip" recession. The heavy snow that blanketed Britain in December was cited as the main reason for the slowdown. See article

Mervyn King, the governor of the Bank of England, warned that inflation in Britain could reach 5% in the coming months and that real wages in 2011 would be no higher than six years ago, something that has not happened since the 1920s. But Mr King maintained that "the right course has been set" for a return to sustained growth. Earlier, **Sir Richard Lambert**, in his final speech as head of the Confederation of British Industry, assailed the government for lacking a growth strategy, saying it had just a "few vague ideas". See article

The IMF updated its estimate for **global growth** this year; it now thinks the world economy will expand by a slightly higher 4.4%. The fund expects the price of oil to average $90 a barrel in 2011 and other commodity prices to rise by 11%.

There's no pleasing some

Barack Obama asked **Jeffrey Immelt** to head a new presidential panel on jobs and competitiveness. The boss of GE previously worked on the advisory board on economic recovery chaired by Paul Volcker, which winds down next month.

Mr Immelt called on businesses to join a national effort to spur growth, but his appointment was derided by a big group of tea-party backers, which called Mr Immelt "the king of crony capitalism".

There was speculation that Eric Schmidt might like a job in the Obama administration after he announced that he was stepping down as **Google's** chief executive in April and handing over the reins to Larry Page, Google's co-founder. Asked about his future intentions, Mr Schmidt, who will become executive chairman in the spring, said he was committed to the company "as long as it's exciting".

Figures for 2010 showed that **General Motors** sold more vehicles in China than in the United States for the first time.

The **price of cocoa** shot up after Alassane Ouattara, widely recognised as the winner of a disputed presidential election in Cote d'Ivoire, called for a ban on exports of the crop from his country in another effort to get the incumbent president to step down. America supported the export ban. Cote d'Ivoire produces 34% of the world's cocoa, which is in high demand as confectioners prepare for the Easter season.

The imminent trial of **Allen Stanford** for an alleged $7 billion Ponzi scheme was put on hold, following psychiatric advice that he is mentally unfit for a hearing.

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Daily Chart

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The state of the union

The union's troubled state

Jan 27th 2011 | from PRINT EDITION

A strikingly unaudacious speech from Barack Obama failed to address America's problems



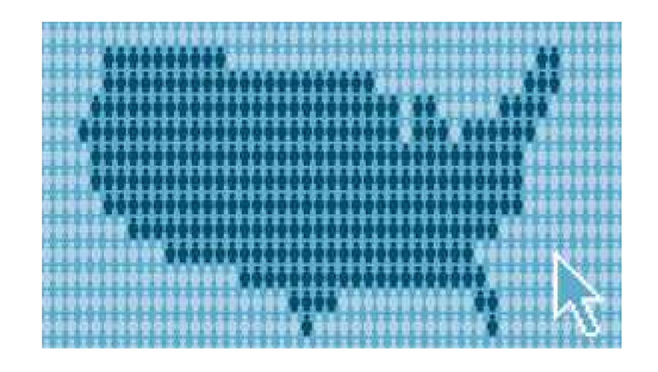
IN A show of civility prompted by the dreadful shootings in Tucson, Republicans and Democrats sat side by side to hear Barack Obama's state-of-the-union message. But that truce could not hide the fact that the two sides have starkly different analyses of what has gone wrong in America. And in so far as either side has solutions to offer (which is sadly not very far), these are starkly different, too. Everyone pretends to be in favour of bipartisan dialogue, but it is a dialogue of the deaf.

America faces two huge, linked problems. Its unemployment rate is running at 9.4%; once you add in those who want full-time work but can find only part-time jobs, it is almost twice that. Job creation is not even keeping pace with the rise in population. And the budget deficit is running at almost 10% of GDP; on that measure this year and the previous two will have been the three worst since the second world war.

To the Republicans who now control the House of Representatives, the main problem is the deficit and the cumulative burden of debt it brings with it. The deficit will of course narrow as the economy recovers, but because of the insatiable demands for health care of America's now-creaky and retiring baby-boomers, unless taxes are hiked it will not dip below 4 of GDP, and it will start to rise again after 2015. That is not sustainable. Not only will borrowing on this scale tend to crowd out more productive investment: the interest on it is already eating up 10% of government revenue, a figure that will rise as interest rates go up. Hence the Republican demand for swift and deep cuts. Get spending down, shift government off the backs of the people, and jobs will return, as the invisible hand works its magic.

Mr Obama sees things the opposite way round. His state-of-the-union speech was an attempt to place jobs-which, according to pollsters, most Americans say are their priority-at the forefront of the debate, and he put the deficit at the end of a long list of concerns. After two years in which he concentrated more than was wise on getting health reform passed, refocusing on jobs makes some sense. It is obviously true that America's infrastructure, both human and physical, is sub-par (its children's maths skills were recently placed 25th out of 34 in a ranking of OECD countries). And it is hard to reduce the deficit while the country has a large group of persistently un- or underemployed people.

But two large difficulties arise. First, neither Mr Obama nor the Republicans has a workable plan for dealing with even their own main concern; and second, neither side seems interested in dealing with the other's priority. This is not a recipe for a productive partnership.



Sputter-nik

Mr Obama claimed that America needs to "out-innovate, out-educate and outbuild the rest of the word". Yet his speech provided only the waffliest of ideas about how it might do that, and no indication of how they might be paid for. The parallel he likes to draw with the moment when *Sputnik* was launched and America realised Russia was winning the space race falls down there, for in 1957 America's government had piles of cash to spend on catching up. Now it has none.

True, some of the measures Mr Obama talked about this week, such as rewarding schools for holding poor teachers more accountable, should not cost much. But others-such as bringing high-speed rail to 80% of Americans and broadband internet to 98% of them-will. And the federal government's record suggests the money may not be well spent: a report by the World Economic Forum puts America at 68th in the world for the effectiveness of its public-sector spending.

The big cop-out

Mr Obama also said far too little about what most concerns Republicans and what led to his party's defeat at the mid-terms: the deficit. Cutting hard this year is too risky; but laying out a concrete set of proposals on how to get the budget back into shape from 2012 onwards is essential.

A year ago Mr Obama set up a deficit-reduction commission, which duly produced a sensible report at the end of last year. He has failed previously, and failed again this week, to endorse the commission's conclusions. He offered no specific proposals for cutting the cost of the biggest drains on the federal purse: health care, Social Security (pensions) and defence. And, although revenues will have to rise if the budget is to be brought into balance, he failed to explain to middle-class Americans that they will have to pay more tax. His only gestures in the direction of fiscal responsibility were to propose reforming corporate tax, increasing some taxes on the very rich and extending a freeze on some categories of discretionary spending, all of them tiny parts of the overall picture. If he is serious about the deficit, this was the time to show it. He should have taken courage from recent improvements in both his poll ratings and the economy. He copped out.

For their part, the Republicans have made it clear that they have no interest in Mr Obama's plans to spend or invest more money. Given that they are supposed to be the party of fiscal rectitude, that is understandable. But they, too, are failing in their main brief, having neglected to come up with a plan for dealing with the long-term problem caused by entitlements. The only medicine they propose is cuts of 20% and more on parts of the "non-security discretionary" bits of the budget (ie, on only about 17% of it) which would succeed in causing a lot of pain while failing to solve the problem.

Both parties' ideas are rotten, but the collision between them looks like being worse. On March 4th the federal government will run out of money unless Congress first passes a bill voting more; a few weeks after that, it will bump up against the federal debt ceiling, now set at an apparently insufficient $14.3 trillion, unless, again, Congress votes to increase it. Both measures must be passed by a House of Representatives now firmly in Republican hands, and also require the support of seven or more Republican senators. The Republicans have vowed to exact deep spending cuts in return for their assent. The president will not accept these. The stage is set for a savage spring.

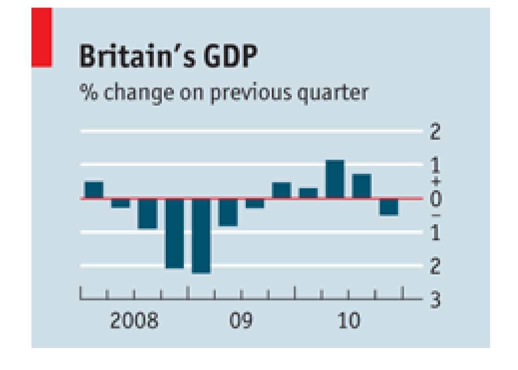
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Britain's stuttering economy

Don't panic-yet

Jan 27th 2011 | from PRINT EDITION

The government should stick to its course despite worrying economic figures



CRISIS may be too strong a word for it, but Britain's economic predicament is more than a little uncomfortable. Only a year after climbing out of recession, the economy shrank again in the final quarter of last year. The surprising weakness was caused in part by unusually cold weather but it is not fully explained by it. A frail economy ought at least to be free of price pressures but Britons have had no such luck. Inflation rose to 3.7% in December. Further increases in the cost of imported commodities and this month's rise in value-added tax (VAT) are likely to push the rate above 4% by spring. The VAT hike was needed to help shrink a budget deficit that is on track to reach 10% of GDP this financial year. This toxic mix of falling GDP, high inflation and a big budget deficit is rare among rich countries but not unique; Greece suffers from it, too.

Such a run of bad news looks like an argument for a policy rethink. If the economy stays weak, it may not be robust enough to withstand further deficit-cutting measures, including a planned rise in national-insurance contributions this April. The persistence of high inflation (it has been well above the 2% target for most of the last three years) calls into question the idea that the Bank of England could counter the effects of fiscal tightening by easing monetary policy. Its benchmark interest rate is already as low as it can feasibly go, and a further round of "quantitative easing" would stretch too far the gap between the bank's objective of low inflation and its actions. A concern that businesses and wage earners might think policymakers were going soft on inflation led two of the bank's nine-strong monetary-policy committee to vote for an increase in interest rates this month (see article).

Yet nasty as these numbers are, they should not lead the government to change its policy. For all the understandable anxiety, the economy has proved stronger than seemed possible in June when George Osborne, the chancellor of the exchequer, first set out his budget plans. Much of the pressure on inflation will subside in a year's time. The slump in output may not endure either. The cold kept customers away from hotels, restaurants, airports and leisure centres, and stopped building work. Britain's statisticians reckon that, without the bad weather, GDP would have been flat, but that is far from certain. Business surveys suggest the economy had slowed but was still growing. It is not unusual for recoveries to stall. America's economy slowed last year before reviving. Britain's endured a dud quarter or two as it emerged from previous recessions.

Go easy on the taxes

Experience cautions against a panic reaction to one bad number. But what if it transpires that the weather was not the main culprit and the economy has lost momentum? Mr Osborne has often seemed too confident that private-sector spending will fill the gap in demand left by fiscal austerity. That he has a medium-term plan for fixing the deficit is welcome (it would be nice if America had one). Indeed, his very enthusiasm for budget cuts gives him room with bond markets to postpone some of the pain. Spending cuts tend to reduce budget deficits more effectively than tax increases, so these should not be delayed. But if more bad figures emerge a reprieve on new taxes may prove to be wise.

Deficit-financed public spending is not a growth strategy. At best, it can provide a bridge between the consumer-led growth that Britain leant on before recession to the export- and investment-driven recovery it needs now. Strong global growth, high corporate profits and a weaker currency should allow Britain to grow. If the economy cannot thrive in these circumstances, it is in real trouble.

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Protests in Egypt

The scent of jasmine spreads

As protests erupt in Egypt, Arab leaders everywhere should take heed



TUNISIA has a mere 10m-plus people and Egypt around 84m. But as the yearning for democracy stirs in the Arab world, a wave set off in tiny Tunisia, travelling east through the Maghreb, is now rocking giant Egypt. The past few days have seen angry demonstrations in at least a score of Egyptian towns. Some 30,000 people have jammed Cairo's most famous square. Such astonishing events, in the heart of the Arab world's most populous country, have not been witnessed in the 30 years since Hosni Mubarak, its ailing 82-year-old dictator, took power (see article).

First Tunisia, next Egypt? The scent of the jasmine revolution, as Tunisians are calling their national upheaval, has certainly spread. Satellite television, mobile telephones, the internet and Twitter continue to relay the giddy news across the Maghreb, along the Mediterranean's southern coast, and on even through Saudi Arabia to the Gulf and Yemen. Plainly, the dictators are nervous. But that does not mean that they are about to fall like dominoes.

No one can be sure even how events in Tunisia will unfold. The country has a long way to go before calm can resume or a stable new order emerge. A unity government could take the country along an evolutionary path towards democracy, pluralism and tolerance. Or more radical elements, so far secular rather than Islamist, could drive it in a harsher direction, ridding it of every vestige of the old regime, including those of its number in the fragile new government (see article). Or the army might step in. The hope is that, with its educated people and its moderation, Tunisia could yet provide a hopeful beacon for Arabs looking for democracy.

But Egypt would be a far bigger prize. It is the most populous country in the Arab world, Cairo its biggest city. Egypt is a strategic pivot. America sees it as a vital ally in the war against international jihadism and in the search for peace between Arabs and Jews. Its 32-year-old peace treaty with Israel remains the main bulwark against a wider war between the Jewish state and the Arab world. Egypt's leading Muslim institutions are generally a force for moderation.

Yet the country is also often considered a powder keg. Nearly half of its people live on less than $2 a day. Most of them are under 30. The mood is often resentful and sour. The ruling party is arrogant, nepotistic and corrupt. It allows other parties to exist only provided they do not pose a real threat. The press is afforded a measure of freedom, as a safety-valve, but is quickly choked off if it steps out of line. A general election late last year was blatantly rigged, even by the low standards of the past. Open politics is paralysed. Mr Mubarak's son Gamal is often tipped as the old man's successor.

The main opposition, the Muslim Brotherhood, lost all its seats in parliament in the general election. Hundreds of its members are in prison, detained under widely abused emergency laws that have been in force for more than 40 years. In the recent turmoil in the streets, the Brothers kept a noticeably low profile, perhaps waiting to see how things would unfold. If there were fair elections, they would probably do well, perhaps even win. Yet many secular-minded, democratic and liberal Egyptians feel queasy about letting the Brotherhood have its head, fearing that if it won power at the ballot box

it would never let it go. Others worry that the Brothers would rescind the peace treaty with Israel. The fiercer of the Palestinian movements, Hamas, is an offshoot of the Brotherhood.

Jump before you are pushed

Mr Mubarak, like the rest of the Arab world's autocrats, will be pondering the despot's eternal dilemma. Is it better to loosen controls in order to satisfy their people with a whiff of freedom, or to tighten them in an effort to ensure their docility?

The fate of Tunisia's strongman, Zine el-Abidine Ben Ali, suggests that an angry people will be satisfied with neither. If Mr Mubarak truly put his country's interests first, he would immediately promise to retire before the next presidential election, due in September. At the very least he would ensure that the contest is a genuinely open one, not another farce.

The latest unrest may yet die down. The security services and police may manage to contain it. But it is sure to bubble up again before too long. And one day the powder keg may explode. In the long run, the real question for Mr Mubarak is whether he wants to leave his country with a chance of peaceful change, or to leave it ablaze.

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Phone-hacking in Britain

The old man and the Met

Jan 27th 2011 | from PRINT EDITION

As the scandal over phone-hacking erupts again, there are still more questions than answers



CONSPIRACY theorists like to believe that a secret, sinister cabal governs their country and the world: a network of the powerful that protects and advances its own interests, riding roughshod over the little man and the law. Alas, Britain's phone-hacking scandal-which features a senior prime-ministerial aide, a compromised police service and Rupert Murdoch-suggests that sometimes the conspiracy theorists might just have a point. The imbroglio has forced Andy Coulson, a tabloid newspaper editor turned Downing Street satrap, to quit. This week it sparked a new police investigation. That mustn't be the end of it.

The story burst into the public domain in January 2007, when Clive Goodman, a reporter from the *News of the World* (owned by News International, Mr Murdoch's British newspaper outfit), and a private investigator were imprisoned for hacking the voicemail messages of members of the royal household; the trial revealed other hacking victims too. Mr Coulson, then the paper's editor, and other executives insisted that no other members of their staff had known about the malpractice. Nevertheless, Mr Coulson resigned-to be reincarnated as Mr Cameron's communications chief six months later, moving to Downing Street after last year's election.

Mr Coulson still protests his innocence. But given this history, Mr Cameron was foolhardy to have taken him to Number 10. Still, Mr Coulson is not the only vulnerable player in this story. The reckoning has only just begun.

Mr Murdoch's newspaper executives have in the past been insouciantly unco-operative with parliamentary probes into this tawdry affair. Their "rogue reporter" defence-always implausible-has now collapsed. The *News of the World* had already settled with several other well-known hacking targets. Legal suits have multiplied; former reporters have incriminated their bosses. This week, in a partial reversal, the paper fired a senior journalist and pledged to punish anyone implicated in hacking. Good, if true-but much too late.

Meanwhile, News Corporation, Mr Murdoch's parent company, wants to buy the rest of BSkyB, a satellite broadcaster in which it already has a 39% stake. The hacking furore involves alleged crimes; the Sky bid is a competition issue. But they are related because many objections to the takeover cite the influence wielded by Mr Murdoch and his media. He and his executives could help allay concerns about their papers' power by urgently demonstrating that they are accountable.

Watching the police

Although it is reprehensible that the methods of some tabloid journalists shaded into criminality, it is not altogether surprising. The way the Metropolitan Police handled the hacking investigation, on the other hand, has been shocking.

The force stands accused of having neglected its duty: it is variously said to have failed to notify all the likely victims of phone-hacking; to have failed to pursue leads; and to have withheld evidence from prosecutors. The Met itself now faces legal action, intended to make it reveal more of what it knows. The implication is that some officers were loth to make enemies of Mr Murdoch's newspapers, for whatever reason.

This week the Met launched a fresh investigation, following the announcement of a review by the Crown Prosecution Service. If more prosecutions turn out to be warranted, the senior officers who were responsible for the earlier laxity must be brought to book. The Met has transferred responsibility for the investigation to a different unit. Unless it performs more credibly, and in a hurry, another police force should take over.

Some in Britain shrug that this is not, in fact, an example of the powerful doing down the little man. Rather, they say, it is the opposite: a case of celebrities commanding more attention than many victims of more serious, equally uninvestigated crimes (such as much burglary) receive. The Met's defenders say the explanation for its soft-peddling is not conspiracy but capacity: it had better things to do with its time than worry about naughty journalists intercepting tittle-tattle. Those arguments are wrong. The hacking scandal matters because it makes it seem that, in Britain, some people are above the law, and others are content for them to be so. The truth must out.

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Israel and Palestine

Leaks must not poison diplomacy

Jan 27th 2011 | from PRINT EDITION

Palestinian leaders should be praised, not reviled, for their willingness to compromise



THE sadly misnamed Israeli-Palestinian "peace process" is proceeding precisely nowhere. America, its chief mediator for the past three decades, has formally taken time out. Israel's government seems blithely uninterested. The Palestinians are no longer talking to the Israelis. And now, thanks to leaks about the Palestinian conduct of the negotiations from Al Jazeera, a Qatar-based satellite-television channel, it is widely mooted that the process has been killed off altogether.

Diplomacy is indeed comatose at present, but the leaks do not suggest it is past praying for. Rather the opposite. They show clearly the outlines of a possible deal, they suggest that the gaps between Israeli and Palestinian negotiators in 2008 were narrow, and they demonstrate that the Palestinians were far readier to make the necessary compromises than Israel's backers, especially in America, had given them credit for.

The leaks were presumably motivated by enemies of Mahmoud Abbas, the Palestinian leader. Their main revelation is that he bent over backwards to make a deal. Since no deal was done, his willingness to make concessions is being portrayed by his harder-line opponents in the Palestinian diaspora and among the Arab world's rejectionists as cowardice, collaboration, duplicity and incompetence. They present it as a vindication of the bleaker alternative vision of Hamas, the Palestinian Islamist movement that in theory rejects the notion of a Jewish state altogether and has in the past been readier to espouse violence to achieve its aims. Some of Mr Abbas's critics are calling for him to step down; many of them castigate him and his team for saying one thing in public and another in private.

That's how diplomacy works

As a critique of the way the Palestinians were conducting their negotiations, this is daft. Diplomacy necessarily involves tentatively exploring, in private, ideas that at first seem radical: talks would never get anywhere if the parties involved offered only what was easily conceded. It is not clear whether these were firm offers or merely the airing of possibilities; nor, since the leaks were presumably selective, whether Israel demonstrated any matching flexibility. Still, on all the most critical issues Mr Abbas and his aides showed a remarkable willingness to soothe Israeli sensitivities and take on their own hardliners in order to win a minimal yet independent Palestinian state. Such readiness to take risks for peace deserves praise, not condemnation.

The Palestinians evidently accepted just about all the conditions laid out by Bill Clinton in the "parameters" he proposed as his term of office ended in early 2001. For instance, Mr Abbas's chief negotiator privately admitted the futility of insisting on the Palestinians' cherished "right of return", whereby 5m surviving refugees and their descendants would be able to go back to their ancestral homes in what is now Israel. He accepted that only a symbolic few thousand of them could return if Israel were to remain a predominantly Jewish state. He also indicated a willingness to go along with a broadly ethnic partition of Jerusalem, with Israel keeping most of its surrounding settlements provided that the Palestinians could have the core of the eastern side of the city as their capital with wide access to the rest of the West Bank. This is an eminently sensible plan.

Mr Abbas mooted the possibility of an international committee to oversee the city's holiest sites. Palestinians (and other Muslims) should have access to the area around the Dome of the Rock, while the Jews could pray at the Western ("Wailing") Wall below it. He also recognised the sense of letting Israel keep the biggest settlement blocks in the West Bank close to the 1967 border, which would be adjusted to let Palestinians receive territory through land swaps elsewhere.

The Palestinians also seemed to accept the notion of Israel as a Jewish state, provided that minorities had full rights within it.

Al Jazeera's leaks indicate a missed opportunity. Had Ehud Olmert, the Israeli leader who was ousted just before the end of the Annapolis talks of 2007-08, stayed on, one of the world's bitterest conflicts might have come to an end. But they also point to a future possibility. The Palestinians' willingness to make concessions gives the lie to the notion, widely mooted in Israel when the process jams, that there is "no Palestinian partner" for peace. America may feel exhausted and rebuffed, but if it pressed Israel to match the Palestinians' flexibility, the process might just creak forwards once more.

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Letters

On air travel, Pakistan, Cote d'Ivoire, Wikipedia, bankers, investing, economics, French, company logos

Jan 27th 2011 | from PRINT EDITION

Letters are welcome via e-mail to letters@economist.com

Priority passengers



The jet-set life

SIR - As airlines have adjusted to a new economic environment by reducing capacity and flying with higher load factors, empty seats are practically non-existent these days on American domestic flights ("The misery of flying", January 8th). In addition, new regulations in the United States impose hefty fees on aircraft that idle on the tarmac, so airlines would rather cancel flights at just the hint of snow. As a result, it can take days for inconvenienced passengers to resume their journey.

In your article Michael Levine suggested that airlines could bid for the right to be prioritised when airports reach full capacity. I would take this one step further. Instead, airlines could charge passengers for a "warrant" attached to their tickets that would carry "senior" or "subordinate" status.

Those who have paid the premium for the "senior" warrant can jump the queue to claim a seat on the earliest flight once travel resumes, and those with a "subordinate" warrant would receive compensation for being bumped. The price of the "warrants" could be market-determined, and they could trade in a secondary market. Let passengers, not airlines, put a price on the value of their time.

Ira Sohn
Professor of economics
Montclair State University
Upper Montclair, New Jersey

SIR - Policies that punish airlines because of flight delays are misguided. Those policies should be redirected towards the airport authorities as it is they who are responsible for clearing snow from the runway, de-icing planes prior to take-off,

loading and unloading bags and keeping departure gates open rather than closing them for maintenance (Frankfurt, anyone?)

Furthermore, the assumption that airline passengers would be willing to pay higher fares to travel on an airline because it has a higher priority is simply not realistic. Even the most experienced business traveller is often at the mercy of corporate travel policies which dictate that he take the cheapest airline.

James Wooten
Kanata, Canada

Pakistan's intolerant roots



SIR - Your leader on the assassination of Salman Taseer ("A good man who did something", January 8th) blamed Zia ul Haq for starting the Islamisation of Pakistan in the 1980s. Yet in the 1970s it was Mr Taseer's own party, the Pakistan People's Party, that first passed a constitutional amendment to declare Ahmadis as apostates, banned alcohol, gambling and nightclubs, and began the search to acquire a nuclear "Islamic bomb". In mourning the death of a man who stood up to extremists, let us not forget who got this snowball rolling.

Shahid Jamil
London

Friends in troubled times

* SIR - Your political analysis of the refugee crisis in Cote d'Ivoire was astute ("Fear of contagion", January 8th). But amid the hubbub happening on the Liberian border, where more than 30,000 Ivorians have sought refuge, a crucial point was overlooked: Liberians, most of whom are mired in poverty, have opened their homes to Ivorians and shown a remarkable sense of solidarity.

While the international community prepares to intervene, Liberians have offered assistance for close to two months. They feed Ivorians what little they have and empty their houses at night so large numbers can sleep in their living rooms.



From a distance, the conflict looks like another African disaster. But a closer look reveals something rarely reported from Africa; a wave of kindness toward one's fellow man. It is an African tradition that those in the West could learn from.

During the 14-year-civil war that ripped apart their country, Liberians lost many things. But they never lost their hospitality.

Jean Marie Adrian
Regional director for west Africa
Catholic Relief Services
Dakar, Senegal

WikiTweaks

SIR - Your take on the charges of elitism at Wikipedia struck a chord ("Wikipleadia", January 15th). I have been a contributor since the summer of 2009, mostly to articles on race issues, and during this time I've seen several members quit the project. Every person I know of who has left provided the same reason, which is that Wikipedia's rules are enforced selectively, especially the rule that members treat each other in a civil manner. One person said he had been accused of being a "nationalist", a "racist", a "POV-warrior", a "troll", a "conspirator", a "sockpuppet" and a "meatpuppet".



The basic problem is that without a system of checks and balances, Wikipedia cannot ensure that people who hold minority viewpoints are treated fairly. Although Jimmy Wales is still the titular head, nearly all decisions about individual disputes are made either by the community, by administrators who are elected by a vote in the community, or by a group of high-level administrators known as ArbCom, who are also elected. The surest way for administrators and ArbCom to retain their positions is to appeal to popular sentiment among the ordinary members. By doing so they drive away members who might have voted against them.

This self-sustaining cycle of bias, the decline in participation and Mr Wales's gradual delegation of authority to the community and to ArbCom have all occurred since 2007. He now needs to introduce fundamental reform to the way Wikipedia's community is managed.

Jonathan Kane
Belle Mead, New Jersey

SIR - I have had my contributions erased, questioned and altered on Wikipedia. The comments and changes were so annoying that one evening I got out all my references and inserted as many citations as I could in an effort to stop the madness. It took hours, but I wanted to settle things once and for all. It was not a joy to do; this is not a recipe for success at Wikipedia.

Tim Rooks
Berlin

Boneheaded bonuses



SIR - It was distressing to read another perpetuation of the myth that we have to pay bankers obscenely huge sums of money to attract the best talent ("Do the maths", January 15th). I wonder what the evidence for this assertion really is?

There are examples of particular bankers leaving a particular bank and taking clients with them, but this is a short-term glitch, not a long-term woe.

Trading isn't hard. Computers do much of the work, and unless we break the culture of paying ridiculous bonuses for being "lucky", the banks will continue to laugh in the face of politicians and regulators. Japanese housewife traders have led the way in showing us that frankly, it isn't rocket science.

Roger Moffat
Former derivatives trader
London

* SIR - The management boards at most banks have completely forgotten who is providing their business with capital in the first place and is thus the ultimate risk taker: the equity shareholder. Paying out huge compensation packages to bankers affects returns to shareholders. It is equity investors who must do something about this, especially where gross incompetence on the part of the bank is concerned.

Albert Trayner
Pitlochry, Perthshire

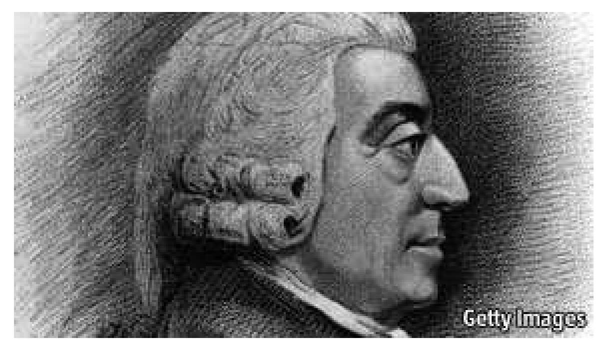
Investment advice

SIR - You seemed puzzled by the existence of momentum investing ("The big mo", January 8th), a trend you said "has been in existence for over a century", despite the fact that it "flies in the face of academic theory". Surely it has been around longer than that? The trick of investing is to be neither too against the crowd, nor too with it and dates back at least as far as Baron Rothschild's dictum: I never buy at the bottom and I always sell too soon.

Simon Yates
New York

Moral economics

* SIR - A professional code of ethics for economists is long overdue (Economics focus, January 8th). Many early thinkers about the market were much concerned with ethical issues. Jeremy Bentham helped to create utilitarianism and John Stuart Mill was as much a philosopher as a political economist. Not to be outdone, Karl Marx, while repudiating any divine guidance, nonetheless advocated his workers' paradise on ethical grounds. Moving forward, John Maynard Keynes considered seriously the ethical implications of his theories.



The man who started it all

Yet I recall taking a graduate class on the history of economic thought in the 1960s and asking the instructor, "What is moral philosophy?", of the kind that Adam Smith taught at Glasgow University in the mid-18th century. The instructor's answer: "Don't worry about it; whatever it is, it isn't economics."

Eugene Elanderd
Dahlonega, Georgia

Could do better

* SIR - Your article about the French education minister defending Nicolas Sarkozy's treatment of the French language ("Sarkozy can't speak proper", January 15th) quoted the minister, Luc Chatel, as saying that Mr Sarkozy avoided

"syntactic convolution". In fact, Mr Chatel used the word "circumvolutions" (folding around a core), where one expected to read "circumlocutions" (periphrases). As a French teacher would say: *Peut mieux faire*.

Jean-Claude Thil
Paris

A special brew



That 70's show

SIR - Mention of Starbucks updating its logo (Schumpeter, January 15th) reminded me of an earlier modification. When Starbucks was a small counter-culture coffee-shop chain in the Pacific north-west, its logo featured the same familiar mermaid but in an almost obscene pose with her fins spread wide apart. This was eventually changed to reposition the mermaid to focus on her face and discard the fins. One lesson may be that a successful company rebranding retains some essential aspect of a familiar logo.

Bruce Brown
Professor of economics
California State Polytechnic University
Pomona, California

SIR - I remember when the now defunct Wang computers came up with the idea of branding its maintenance and support service as "Wang Care". The British board members had to explain to their American counterparts the delightful danger of using that name in Britain.

Patrick Ellen
Phuket, Thailand

* Letter appears online only

Index | Briefing

Barack Obama's next two years

Crunch time

Jan 27th 2011 | *WASHINGTON, DC* | from PRINT EDITION

Despite rising poll numbers and his upbeat state-of-the-union speech, America's president faces a divided government and a mountain of debt



STRANGE and unpredictable are the ups and downs of American politics. On Capitol Hill this week Barack Obama gave the state-of-the-union speech that launches the second half of his first term as president. He told the nation that America had broken the back of the recession and had now to "out-innovate, out-educate, and outbuild the rest of the world", tackle the deficit, reform the government and become "the best place on earth to do business." It was a surprisingly confident performance from the same battered and bruised president who only last November had sullenly to admit, after the Republicans wrested the House from the Democrats in the mid-term elections, that the voters had delivered a "shellacking".

What has restored the apparent spring to the presidential step? After the thumping of the mid-terms, the man who had developed flat feet suddenly got his moves back. First, in December, came a crafty piece of deal-making over taxes. Mr Obama dropped his plan to raise taxes on the rich and extended the Bush-era cuts for everyone, thereby maddening his own left wing but talking the Republicans into a slug of new borrowing that will help stimulate the economy (though adding to the deficit) and his own chances of re-election in 2012. Then, and still before the newly elected 112th Congress started work, came a spate of victories: repeal of the ban on gays serving openly in the armed forces and ratification of the New START deal with Russia.

A tragedy also worked to the president's advantage. Just after the new House convened and Nancy Pelosi passed the speaker's gavel to John Boehner came a shooting spree in Tucson, Arizona, that killed six people and severely injured a congresswoman, Gabrielle Giffords. At a memorial service, Mr Obama's plea to Americans to transcend their differences won admiration from all quarters and surely contributed to the recent bounce in his approval rating from 45% in November to 50% this week.

The shooting had another consequence. It stole some of the thunder from the House Republicans' first big move: their repeal, by 245 votes to 189, of what they call the "job-killing" health-care act. Tearing up Obamacare, the far-reaching law the Republicans accused the Democrats of "ramming through" Congress less than a year ago, was a striking symbol of how the balance of power has changed since the mid-terms. But, of course, it is only a symbol. The Democrats still have a majority in the Senate, and the president has a veto, so Obamacare will stay on the statute book for the time being.

Welcome to the masochistic pleasures of divided government in America. For two years the Democrats controlled both ends of Pennsylvania Avenue. That did not give Mr Obama the power to enact every measure he wanted (an energy bill and immigration reform were two that fell by the wayside), but the 111th Congress was indeed extremely busy. The Democrats poured hundreds of billions of borrowed dollars into efforts to stimulate a sagging economy, bailed out Detroit's failing carmakers and passed scores of laws, including one to reregulate the financial sector.

With the House theirs, the Republicans can at last block this legislative juggernaut. But they are no less stymied than the Democrats now are when it comes to passing laws of their own. This predicament does not always have to result in gridlock. When Bill Clinton found himself in Mr Obama's position in 1995, he was ultimately able to work with the Republicans on crafting big reforms.

Can Mr Obama pull off a similar feat? If you take what the parties say at face value, it might not look so hard. Many of the aims Mr Obama outlined in his speech are shared by Republicans. Both parties claim that they want to make America

more competitive, simplify its tax code, reduce its deficit, expand its trade, streamline its government and fix its underperforming schools. The trouble is that they are utterly divided on how to achieve these goals. Add the fact that it is a mere 21 months to the next presidential election and the scene is set for bitter trench warfare, even if it is interrupted by the occasional opportunistic truce.

The two sides enter this battle with different strengths and tactics. Hovering in the memory of both is the titanic struggle of 1995 between Mr Clinton and Newt Gingrich, the Republican speaker at the time. He is still a presence in Republican politics, pondering a run for the White House (see Lexington), but he overreached as speaker. After a standoff over the budget forced the federal government to shut down, voters were more inclined to blame the Republicans than Mr Clinton, who went on to win a second term.

Mr Boehner, a pragmatic politician who has in the past worked comfortably with Democrats, will try to avoid Mr Gingrich's mistakes. But many of the new Republicans in Congress think they were sent there to slay Leviathan, not rub along pleasantly with the big-spending Democrats. Behind them, the grassroots of the tea-party movement are already spiky with indignation after the compromises of the lame-duck session and are standing guard against further betrayal.

Taking a scythe to government

Mr Boehner and Eric Cantor, the House majority leader, have moved fast to placate the tea-partiers. In deference to the movement's awe of the constitution, the sacred document was for the first time read aloud as the House started business. Framers of legislation must henceforth explain which part of the constitution gives Congress power to enact the relevant law. These, however, are mere sops compared to the main task the Republicans have in mind, which is to stop what Mr Boehner calls the Democrats' "job-destroying spending spree" and to scythe down the size and reach of government.

On the very day of Mr Obama's speech, the House Republicans passed a resolution to cut the budget for the coming fiscal year back to 2008 levels. Exactly how much they will ultimately cut remains to be seen: budget battles are fought out over months, with many feints and counter-feints. The Republicans promised before the mid-terms to cut spending this year by $100 billion, but say now that they will settle for $60 billion. Their original plan called for leaving defence, homeland security and mandatory programmes such as Social Security (pensions) untouched, which would have required spending on the remaining items, from firefighting to disease prevention, to shrink by about 20% across the board. But Mr Cantor now says that "every dollar should be on the table".

If the final number is in doubt, the party's fighting mood is not. It has given Paul Ryan, its leading fiscal *Wunderkind* and chairman of the House Budget Committee, sweeping new authority to demand deep spending cuts. The Republican Study Committee, an ultra-conservative group with a record 175 members in the House, has meanwhile written its own plan for $2.5 trillion in spending cuts over the next ten years.

Mr Obama acknowledges the need for "painful cuts", though he failed to explain them. One proposal is to freeze some categories of domestic spending for the next five years-at an outrageously pumped-up level, critics say. But he also insisted that to compete with the likes of China and India, the country must invest more in education, science, clean-energy technology and infrastructure. This leaves the parties far apart on both the pace and magnitude of the required cuts, so making a collision over the budget inevitable.

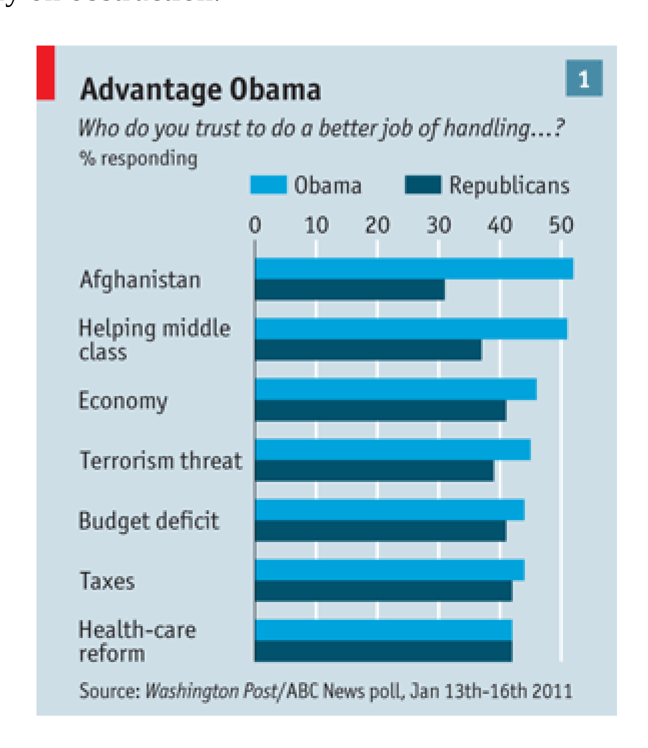
March could bring a government shutdown, when the present "continuing resolution" authorising its operations expires. A bigger fight could follow when the Treasury hits the debt ceiling, which bars new borrowing. A few Republicans have said the ceiling should not be raised, an eventuality that Austan Goolsbee, Mr Obama's chief economist, claims over-dramatically would amount to an unprecedented default that damages the "good faith and credit" of the United States. More likely is that the Republicans will use the debt ceiling to extract further deep cuts or legal limits to government borrowing or spending. The two parties will ultimately strike a deal, but it will be a miracle if America makes it to the autumn without some serious disruption to government services.

Defending Obamacare

As the Republicans prepare their budget offensive, Mr Obama is bracing to protect the gains of his first two years. Foremost of these, in his eyes, is health-care reform. Though safe for the present from outright repeal, its long-term survival is far from guaranteed, and depends mainly on whether Mr Obama is re-elected in 2012. Should the Republicans win the presidency (and, as seems likely, a majority in the Senate), Obamacare will certainly be swept aside, at least in its present form. At some point, too, the Supreme Court may agree with those who complain that the "individual mandate"-the new obligation to buy health insurance on pain of a fine-is unconstitutional.

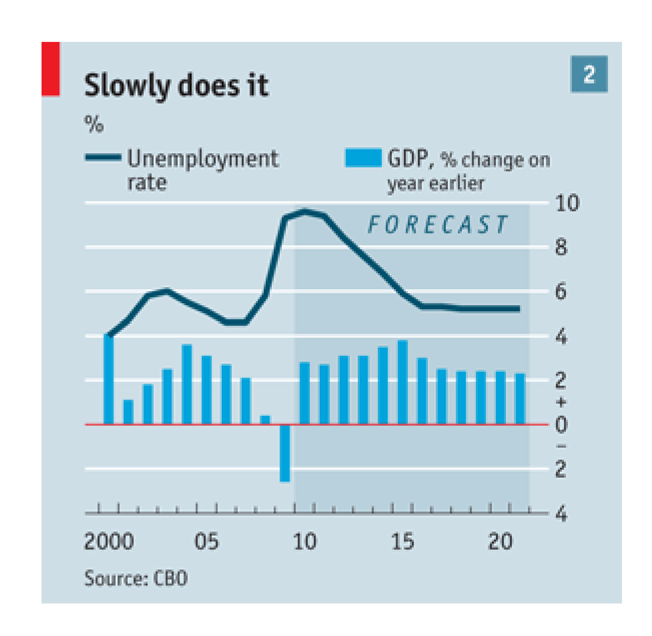
Until then, control of the House gives the Republicans some tempting opportunities for mischief. Congress is supposed to hold the executive branch to account, so the Republicans can try to gum up the works by subjecting the federal bureaucrats charged with bringing reform to life to endless oversight hearings and investigations. Kathleen Sebelius, the health secretary, and Donald Berwick, the head of the Centres for Medicare & Medicaid Services, can expect to spend much of the next year and a half running back and forth from Capitol Hill. A few foes of Obamacare think it may even be feasible for Congress to "defund" the reform by blocking the extra resources the civil service will need.

What is not so clear is whether an all-out assault on Obamacare is good politics for the Republicans. Polls show that most people want to see the new health law amended, not scrapped altogether. Some provisions, such as stopping insurance companies from denying sick people coverage on technicalities, or because of pre-existing conditions, are popular. So in their battle over Obamacare, as over the budget, the Republicans must balance their dislike of the law against the danger of looking as if they are intent merely on obstruction.



Besides, Mr Obama shows no signs of confining himself to defence. Bear in mind that for all their present triumphalism, the Republicans in Congress are in fact held in lower esteem than he is (see chart 1). His recent bounce is a reminder that a president who has lost control of the House still has vast influence, not least through the bully pulpit, which Mr Obama has started lately to use to better effect. In Tucson a fortnight ago, and this week in Congress, he contrived to soar loftily above petty politics. And now, having been accused in his first two years of paying too much attention to health care and too little to jobs, he will level precisely this charge at the Republicans if they give the impression of being keener on rehashing yesterday's fights than facing the problems of tomorrow. "Instead of refighting the battles of the last two years," Mr Obama said in his speech, "let's fix what needs fixing and move forward."

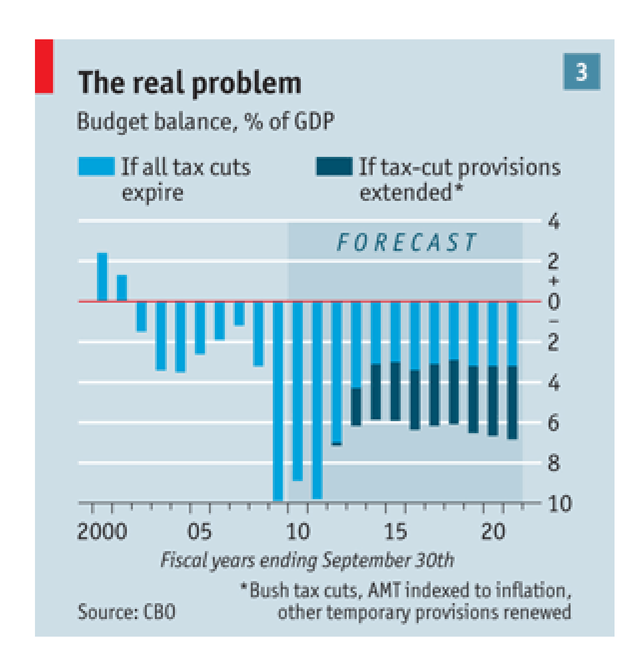
Jobs, jobs, jobs



As to what those problems of tomorrow are, Mr Obama has plainly learnt the error of his ways. Jobs, jobs, jobs, is the new mantra. A recent Pew survey reported that 84% of Americans thought jobs should be his priority. With unemployment at 9.4% (see chart 2) and more than 14m Americans still out of work, the president knows that he stands to lose his own job in 2012 if he fails to expand employment.

To that end, he started to change the direction of his administration well before this week's speech and its emphasis on jobs and competitiveness. He is starting the second half of his first term with a new staff and new focus. Rahm Emanuel, a pugnacious congressional infighter, may have been the right chief of staff when the president's priority was to push big bills on Capitol Hill; but Mr Obama has now tempted the smooth William Daley, once Mr Clinton's commerce secretary, back from Wall Street to run a more business-friendly White House. One change sums it all up: the Economic Recovery Advisory Board, which Mr Obama created two years ago, is being replaced by a Council on Jobs and Competitiveness under Jeffrey Immelt, the chief executive of GE.

The Republicans insist that they are just as eager to restore jobs-but by unleashing the private sector, not government action. Mitch McConnell, the Republican leader in the Senate, heaps scorn on Mr Obama's talk of "investment" in education, research and infrastructure. To Republican ears that is just fancy wording for more public spending and ever-bigger deficits. The deficit worries a lot of voters, too. The same Pew survey that found jobs such a concern reported that 64% of Americans also call the deficit a priority now, compared with 53% in 2009. Hence the Republican plan, in Mr Cantor's phrase, to "cut and grow".



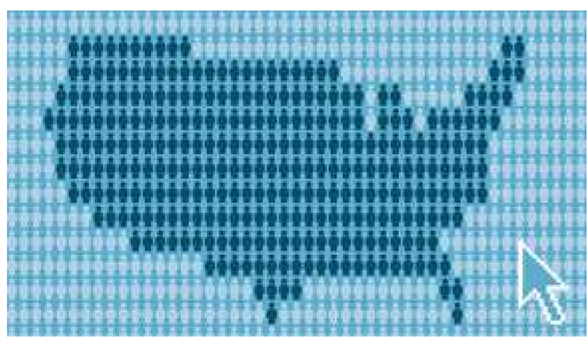
In the best of all possible Americas, the two parties would co-operate to reduce a deficit that remains dangerously high, at an estimated 9.8% of GDP this year, according to the latest figures from the Congressional Budget Office (see chart 3). If Mr Bush's supposedly temporary tax cuts remain in place, it will only fall to just under 6% of GDP in 2015, then head inexorably higher. This guarantees that the national debt will keep rising, to some 97% of GDP by 2021, when interest alone will consume about 4% of national income.

In his speech, Mr Obama acknowledged the need to avoid being buried under a "mountain of debt" by tackling the deficit. This would be an excellent time to start. Public opinion favours action and the recovery is slowly gaining strength, making the pivot from stimulus to restraint less likely to damage growth. A bipartisan commission set up by Mr Obama under Erskine Bowles, a Democrat, and Alan Simpson, a Republican, produced a plan last month to cut the deficit to 1.2% of GDP by 2020 and reduce the debt to 60% of GDP by 2023 via a mixture of spending cuts and tax increases. Mr Obama acknowledged in his speech that they had made "important progress", but said he did not agree with all their proposals, and gave no impression he would implement any.

His own advisers have mulled three different ways to contribute to long-term deficit reduction: individual tax reform, corporate tax reform and changes to Social Security. Individual tax reform would raise new revenue by eliminating exemptions and loopholes while lowering income-tax rates. Corporate-tax reform would do the same without raising or losing revenue. The Social Security bill could be brought into balance by raising more money for it through a larger payroll tax and reducing benefits: for example, by making people retire later. At various times the Republicans have also shown interest in all these ideas.

And yet the chances of serious deficit-cutting look slim. Mr Obama has never matched his words with deeds on fiscal responsibility. A recent civil-service pay freeze was token at best. A case could be made against short-term austerity

measures while the recovery was still tentative, but the president has shown no appetite for long-term solutions either. The few spending cuts and tax increases he has enacted have gone on other priorities, notably expanded health care. Mr Obama is unlikely to tackle health-care costs so soon after passing his reform. And fixing Social Security brings acute political pain with no near-term impact on the deficit.



Explore our

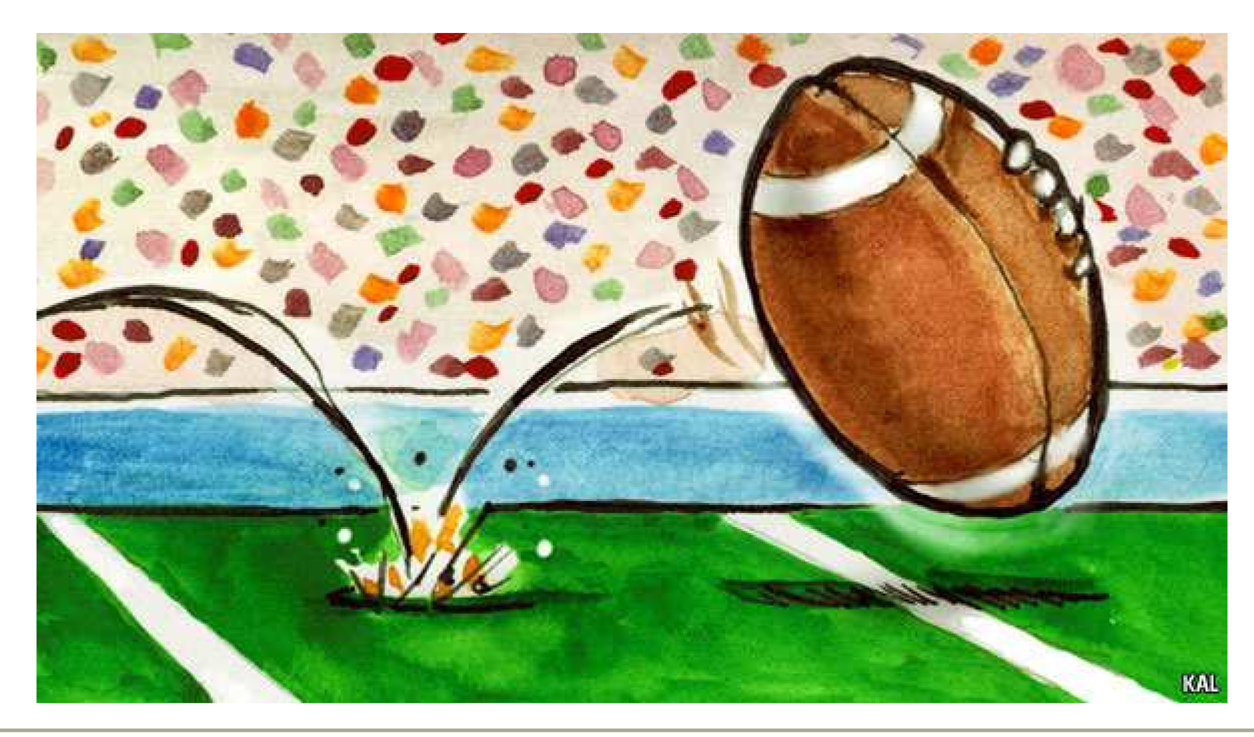
On the Republican side, Mr Ryan made waves a year ago with a gutsy proposal to balance the long-term budget through breathtaking spending cuts, primarily to Medicare, the government-run health scheme for the elderly. But he has not won his party over. A mere 14 fellow-Republicans have signed on to it, and only one is a senior figure. Indeed, for all their purported hatred of government spending, Republicans are campaigning to repeal Obamacare partly because it would rein in spending on Medicare.

It is thus notable that Mr Obama's address made only passing reference to Social Security and individual tax reform. He did make a pitch for lowering corporate tax rates by eliminating deductions, but that will probably founder on the reluctance of businesses to give up their favourite tax breaks. John Podesta, president of the Centre for American Progress, a liberal think-tank, predicts that serious deficit reduction will fall by the wayside over the next two years as Mr Obama and the Republicans pitch the different approaches they would follow after the next presidential election.

Divided we fall

Polls show that Americans like divided government. Its fans say that it forces politicians from opposite ends of the spectrum to seek common cause in the centre. "We will move forward together, or not at all, for the challenges we face are bigger than party, and bigger than politics," said Mr Obama in his speech. For the time being, however, the parties are preparing for battle, not discussing peace terms.

Though both sides agree that the deficit poses a dreadful threat to America's long-run economic health, the Democrats remain wedded to spending and the Republicans allergic to tax, so nothing happens. In the end, it may take an external shock to knock sense into the deadlocked politicians. Alan Greenspan, a former chairman of the Federal Reserve, said this month that he expected that Congress would in due time adopt a budget plan along the lines of the Bowles-Simpson commission. The only question, he added, was whether Congress would act before or after the crisis in the bond market.



Recession and homelessness

Et in Arcadia ego

Jan 27th 2011 | *SARASOTA, FLORIDA* | from PRINT EDITION

The suburban sunbelt is the scene of terrible poverty



THE statistics are worthy of Detroit or Newark: almost half the children in the local schools are from families poor enough to be eligible for free or cut-price lunches; a tenth of households qualify for food stamps; one in eight residents gets free meals from soup kitchens or food banks; perhaps one in 12 has suffered a recent spell of homelessness. Yet the spot in question is not a benighted rust-belt city, but Sarasota, Florida-a balmy, palm-studded resort town on the shores of the Gulf of Mexico.

The Sarasota-Bradenton metropolitan area, a two-county sprawl of condominiums, marinas and retirement homes, saw the proportion of people living below the poverty line rise by more between 2007 and 2009 than any other big city in America, from 9.2% to 13.7%, according to the Census Bureau. Nor is Sarasota an aberration. All the other metropolitan areas that saw jumps of four points or more are also formerly fast-growing southern and western cities: Bakersfield, California; Boise, Idaho; Greenville, South Carolina; Lakeland, Florida and Tucson, Arizona. Arizona now has the second highest poverty rate in the nation, after Mississippi. The especially severe housing bust that ended the breakneck growth of these sunbelt cities has brought with it deprivation on a scale they have never previously encountered and are struggling to address.

Poor inner cities in the Midwest and north-east still have higher overall poverty rates, but in recent years, notes Elizabeth Kneebone of the Brookings Institution, a think-tank, poverty has grown fastest in the suburbs, especially in the sunbelt. A third of America's poor, she notes, now live in suburban areas. Many cities in the sunbelt, adds Margaret Simms of the Urban Institute, are suffering from what it calls "double trouble", meaning a plunge both in property values and employment, with concomitant jumps in poverty. This trend is significant, says Scott Allard of the University of Chicago, since it is harder for the poor to seek assistance and to hunt for jobs amid the suburban sprawl.

Sarasota epitomises all these trends. For many years it prospered by offering tourists and new residents-especially retirees-relatively cheap accommodation in a sunny climate. The population grew by about 5% a year for decades. At the height of the boom, in 2006, construction, property finance and related services accounted for at least a third of the local economy, says Kathy Baylis, the head of Sarasota County's economic development corporation. Her hairdresser (a traditional harbinger of bursting bubbles) was speculating in property, teaming up with friends to buy and "flip" condos.

When property prices began to drop, the effects on the area were particularly pernicious. Those in the building or tourism trades, as well as retirees living off their investments-a huge share of the population-quickly felt the pinch. Unemployment soared, from 3.1% on average in 2006 to 13.4% in January of last year (it is 12.3% now). It would be higher still had some not moved away, causing the population of the county, like the state, to fall for the first time in living memory in 2008.

That has left people like Ken struggling to keep body and soul together. He describes how he gave up his cooking job to look after his ailing mother in 2007. When he started to look for work again a few months later, he could find only a part-time job, which soon evaporated. He had no savings, so could no longer afford to rent. He wound up in a tent in a camp for the homeless called Pinellas Hope, which was set up by the Catholic church in the town of Clearwater, 50 miles up the coast from Sarasota. He is relatively lucky: Steve Barton, a carpenter from Ohio, is one of several hundred living in the woods outside Venice, 20 miles south of Sarasota. He has been out of work for over two years, so is no longer eligible for unemployment payments. He lives entirely off charity.

In addition to the cooks, chambermaids and construction workers who hit the skids soon after the recession began, many former professionals have now exhausted their savings and are beginning to fall back on local charities. Angie Sammann, a former loan officer at a bank, is another of the tent-dwellers at Pinellas Hope. She tells the story of how she lost her job due to illness, then her apartment, then part-time work in a deli, then the room she was renting and finally the possessions she had put in storage. She got a month's work from the Census Bureau last year, but otherwise has not seen a pay cheque for over a year. "I don't care if I scrub toilets," she says, "I just want a job."

Pinellas Hope has 255 tents and 28 huts, all of which are occupied. The Salvation Army branch in Sarasota is equally overrun. It has 200 beds for the homeless, but regularly ends up accommodating 250 or more, according to Bryan Pope, the manager. A special phone service that directs those seeking help to local charities can only help one in five callers, says Richard Martin, the head of a local homelessness charity.

Much of the money for such schemes comes from different local, state and federal government agencies. But all are tightening the purse strings. The county's revenues have fallen with property values, so it is cutting back. The state, meanwhile, has cut its grants to Mr Martin's outfit by 80% over the past four years. Many of the federal grants come courtesy of the stimulus bill of 2009, and so are quickly drying up. When the federal money runs out, says Carolyn Mason, a county commissioner, "that's pretty much the end of the road".

Moreover, cities like Sarasota are unsympathetic places for those down on their luck. One of the reasons they grew so fast in the boom years were their low taxes, leaving little money for social programmes. Homelessness is often seen as a threat to migration and tourism. Sarasota city council made several attempts to outlaw sleeping rough, finally finding a formula that passed muster with the courts in 2005. That year it was named the meanest city in America by the National Coalition for the Homeless. All the other cities in the top ten were also in the sunbelt.

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The state of Michigan

Send in the nerd

Jan 27th 2011 | *LANSING, MICHIGAN* | from PRINT EDITION

A novice takes charge of America's most troubled state



Spreadsheets at the ready

RICK SNYDER is a nasal, middle-aged man who looks like an accountant, and is one. He was once president of Gateway computers. He likes to call himself "one tough nerd". As of January 1st he is also the governor of Michigan. "We can make the old unbelievable, the new achievable," he declared in his state-of-the-state speech on January 19th, echoing what he deemed a clever line from his inaugural address. Mr Snyder was part of the Republican wave that swept across state capitols in November. But he is unique, a moderate who overflows with wonky plans. The question is whether this political novice will be able to guide Michigan forward at last.

The state's woes are abundant and familiar. Employment has fallen every year since 2000. Even as the carmakers recover, they will not resume their role as guarantors of middle-class prosperity. State leaders have struggled to respond to structural shifts. Unfortunately, rather than reform a collapsing revenue system, they have passed short-term fixes. Attempts to reinvent Michigan have moved fitfully. Grants for college students did little to encourage them to stay after graduation. Tax credits for green manufacturing industries may create too few jobs at too great a cost, according to Don Grimes, an economist at the University of Michigan.

It seemed inevitable that a Republican would succeed Jennifer Granholm, the Democratic governor from 2003 to 2010. Few expected that the Republican would be Mr Snyder, a political newcomer. But his plans for "Michigan 3.0" echoed those that business leaders and think-tankers had pushed for years. Michigan, Mr Snyder insisted, must move beyond carmaking, do more to keep young people, create a friendly business climate rather than court specific industries, and support entrepreneurship-Mr Snyder himself once founded a business incubator in Ann Arbor, one of Michigan's few bright spots. After a surprise upset in the Republican primary, Mr Snyder won the general election by a gaping 18-point margin.

Now, however, he must translate his ideas into action. Some plans outlined in his speech appeal to Democrats as much as to Republicans: an initiative to attract educated immigrants, for example, and a bridge from Detroit to Ontario that he says will encourage further exports to Canada. A new "dashboard" will measure Michigan's progress across a range of indicators. He did not once mention the car industry.

But the simple fact is that Michigan is broke. It must endure much more pain before it enters its next phase of prosperity. Mr Snyder's immediate task is settling state finances: he will propose a budget in February. He has assembled a clever team to help, including a budget director poached from Utah. But easy solutions are lacking. The state's deficit may be up to $1.8 billion. Mr Snyder wants to replace the complex, widely reviled Michigan business tax with a flat corporate rate, but this will only expand the budget deficit. Scrapping some of Michigan's many tax credits would bulk up revenues. Reforming pensions and other benefits for state workers, as Mr Snyder says he will, would set Michigan on a more stable course.

Broader cuts are inevitable, however. Universities and cities, which Mr Snyder calls the engines of Michigan's future, are already strained. Yet this year the governor will probably slash funding for them. "It could make it near impossible to move forward," frets Dan Gilmartin of the Michigan Municipal League. The nerd-in-chief may lead Michigan towards a new era eventually. But for now he is still cleaning up the mess of the old one.

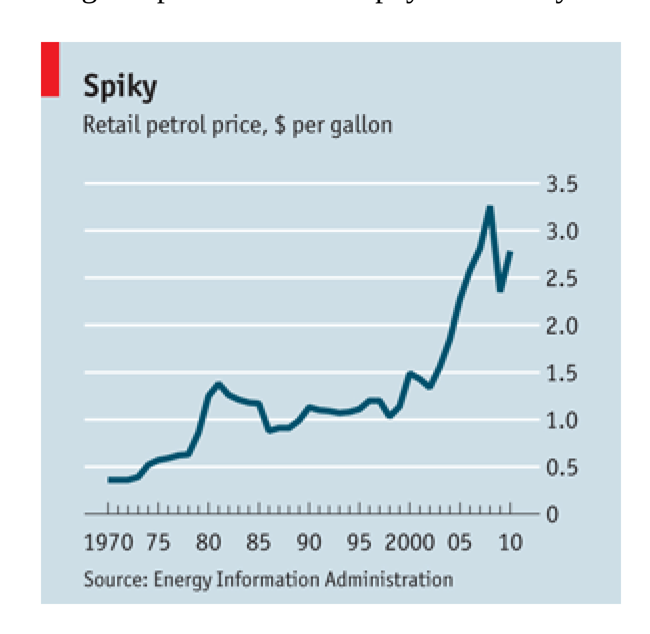
Petrol prices

A jump at the pump

Jan 27th 2011 | *WASHINGTON, DC* | from PRINT EDITION

Bad news for more than motorists

FEW trends cast shadows on economies and politicians like a rise in the cost of petrol. Barack Obama's presidency, so far a minefield of crises, can add one more in the form of higher prices at the pump. Entering the last full week of January the average price of a gallon (3.7 litres) of petrol stood at $3.11, up 40 cents from a year earlier. Fuel has never cost so much in January, but that is unlikely to be the highest price Americans pay for it this year.

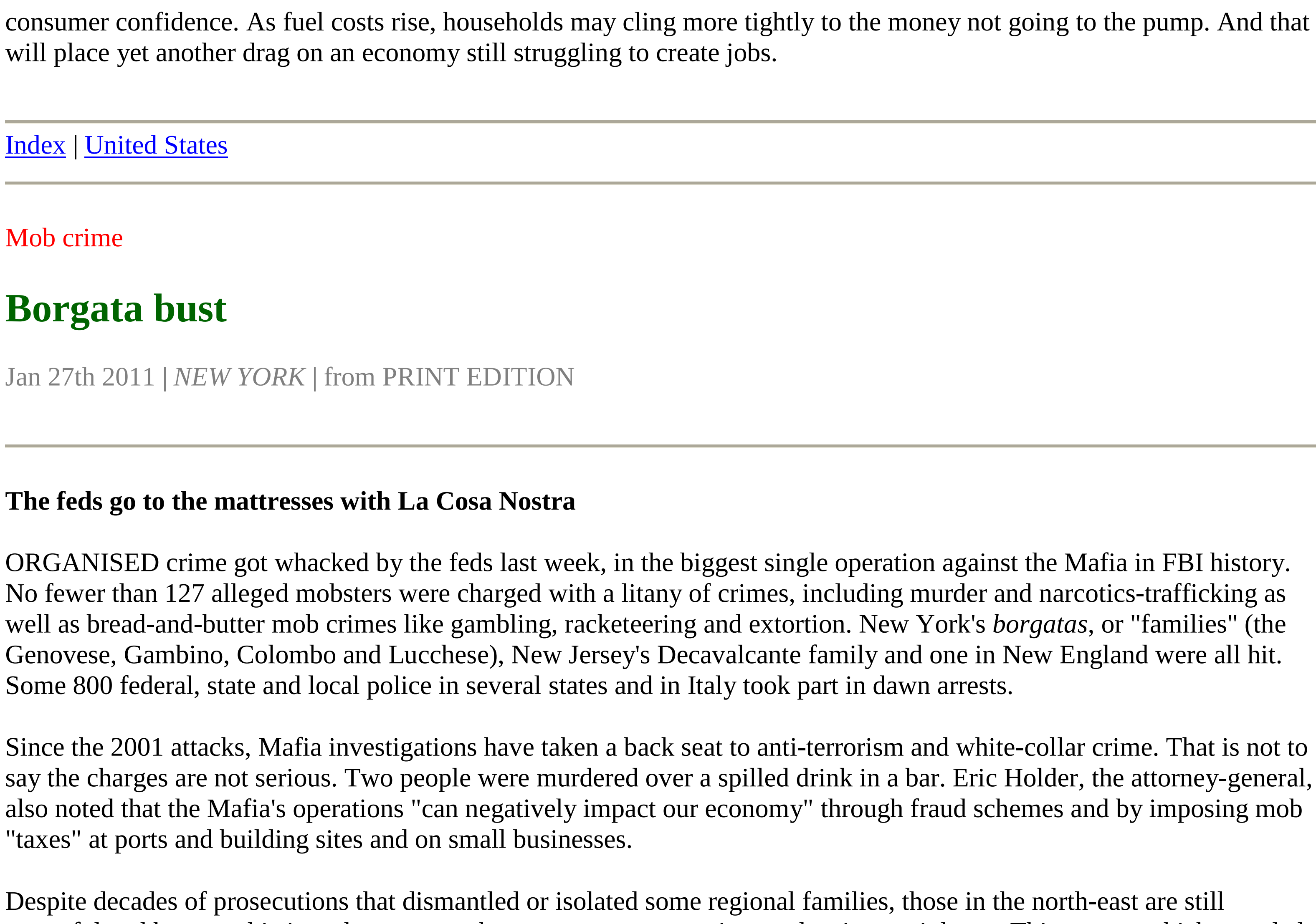


The primary culprit is the buoyant price of oil, itself a product of global economic recovery. After spiking to $145 a barrel in July 2008, oil prices collapsed along with the financial system. But renewed growth has rekindled the demand for commodities and pushed oil prices back from around $30 per barrel to over $90. Concerned that the rebound may derail vulnerable recoveries, leaders of some oil-producing countries promised to increase supply at a conference on January 24th. But their efforts may merely slow the rise in prices.

The potential threat to the economy may hinge on how well Americans have adapted in the wake of the oil shock of 2007-08. Households may, it seems, be insulating themselves from dearer petrol. From 2006 to 2010 the average fuel economy of new cars and light trucks rose from 25.8 miles per gallon of petrol to 29.2. But other signs point to a return to business as usual. More drivers are back on the roads, commuting to new jobs or going on holiday as recovery accelerates. As of last November, miles driven were back to 2007 levels, and a new record high is likely this year. A 13% increase in car sales supported the recovery in 2010, but purchases of light trucks and sport-utility vehicles (SUVs) led the way. To the end of November of last year, SUV sales were up 41% from the end of 2009, while sales of petrol-electric hybrids were down slightly. The petrol-hogging motors that America embraced in the cheap-oil 1990s are a liability now.

And further price increases are likely. Petrol prices typically rise from the winter to the summer driving season. In 2008 prices were below current levels in the month of January but spiked at over $4 a gallon in the summer. That would be a bargain for Europeans, who generally face higher fuel tax rates. But because Americans are more dependent on petroleum, using twice as much per person as other industrialised countries, cost increases have a swifter impact on household budgets.

America can scarcely afford such a blow. Recovery remains reliant on consumer spending, which accounted for two-thirds of third-quarter growth. But petrol is absorbing a rising share of consumer resources. Meanwhile, James Hamilton, a University of California economist, has found that a ten-cent rise in petrol prices is associated with a half-point drop in



consumer confidence. As fuel costs rise, households may cling more tightly to the money not going to the pump. And that will place yet another drag on an economy still struggling to create jobs.

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Mob crime

Borgata bust

Jan 27th 2011 | *NEW YORK* | from PRINT EDITION

The feds go to the mattresses with La Cosa Nostra

ORGANISED crime got whacked by the feds last week, in the biggest single operation against the Mafia in FBI history. No fewer than 127 alleged mobsters were charged with a litany of crimes, including murder and narcotics-trafficking as well as bread-and-butter mob crimes like gambling, racketeering and extortion. New York's *borgatas*, or "families" (the Genovese, Gambino, Colombo and Lucchese), New Jersey's Decavalcante family and one in New England were all hit. Some 800 federal, state and local police in several states and in Italy took part in dawn arrests.

Since the 2001 attacks, Mafia investigations have taken a back seat to anti-terrorism and white-collar crime. That is not to say the charges are not serious. Two people were murdered over a spilled drink in a bar. Eric Holder, the attorney-general, also noted that the Mafia's operations "can negatively impact our economy" through fraud schemes and by imposing mob "taxes" at ports and building sites and on small businesses.

Despite decades of prosecutions that dismantled or isolated some regional families, those in the north-east are still powerful and have sophisticated ways to make money, not to mention tendencies to violence. This sweep, which rounded up a "boss" and a *consigliere*, "keeps the leadership in disarray" says Mark Feldman, a former prosecutor. The Mafia is not the force it used to be, but Mr Feldman observes that if it is not policed it will grow. The mob, he says, is good at organising and recruiting, though admittedly it no longer has the pool of talent it once had.

Films like "The Godfather" and "Goodfellas" and television dramas such as "The Sopranos" and "Boardwalk Empire" have tended to glamorise the Mafia. The likes of John Gotti, also known as the Dapper Don and Teflon Don (nothing stuck to him), reinforced the image. One gangster famously walked around Greenwich Village in his bathrobe. Current *capos* prefer a lower profile. Few of those arrested last week were known outside their circle.

The bust also served to remind the public that the Mafia is not harmless. Unfortunately, though, the nicknames and aliases of some of the indicted-Tony Bagels, Vinny Carwash, Johnny Pizza, Junior Lollipops-evoked more chuckles than shivers.

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Tax-exempt religious organisations

God knows

Jan 27th 2011 | *NEW YORK* | from PRINT EDITION

But the IRS doesn't



"THE constitution does not require the government to exempt churches from federal income taxation or from filing tax and information returns." The potential implications of this comment, in a report earlier this month by Senator Chuck Grassley of Iowa, are starting to dawn on a large chunk of America's charitable sector, which has until now taken for granted that it is exempt from tax.

Currently, an estimated 1.8m "churches" are exempted from income tax-as they have been since America created its modern income tax system in 1894-and indeed from the many other reporting requirements imposed by the Inland Revenue Service on secular charities, which have to file IRS form 990 each year detailing their finances. The influential Mr Grassley, who has long championed greater transparency and accountability in the charitable sector, has become increasingly convinced that this privilege is being abused to the tune of many millions of dollars.

Although his report was triggered by tales of televangelists running lucrative things such as recording studios and selling oil and gas under cover of the religious exemption, it highlights a serious regulatory failure at the heart of America's charitable sector. The 14-point guide which the IRS uses to judge whether an organisation is exempt is open to broad interpretation. There is inconsistency even among prominent evangelistic organisations. Billy Graham, for example, long ago opted not to classify his empire as a church, and thus files a 990, in part because he wanted to encourage other religious charities to be transparent and accountable.

On the other hand, some of America's biggest charities, such as the Salvation Army and Volunteers of America, which use the bulk of their billions of dollars in revenue to provide social services that might equally be supplied by a secular charity or the public sector, are designated as churches. Thus they need not reveal anything about their finances or their governance, and are largely unaccountable to the public. Senior members of staff, whom they call ministers but who might easily be confused for bureaucrats, can benefit from perks such as the "parsonage allowance"-essentially tax-free money to pay their mortgage.

Before seeking new legislation, Mr Grassley is waiting for religious organisations to respond to his report with proposals to minimise such abuses. Already, a commission has been established by the Evangelical Council for Financial Accountability, which is expected to recommend some significant reforms. Although by raising this issue Mr Grassley is touching what has long been regarded as a "third rail" of American politics, his reward may be a much-needed burst of transparency. Let there be light!

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The colonias of the Mexican border

Paving the way

Jan 27th 2011 | *BROWNSVILLE, TEXAS* | from PRINT EDITION

Texas's colonias are still desperately poor, but there are signs of progress

CAMERON PARK, a small community on Texas's southern border, is clearly poor. On a recent afternoon children, dogs and chickens were playing in the streets. A few businesses-taco trucks, car repair, a beauty salon-advertised with handwritten signs. Some of the homes were lushly landscaped, with hibiscus flowers and orange trees, although others were broken-down shacks interspersed with piles of lumber and rubble. And on one quiet street, two men were building a pavement.

For Cameron Park, this is progress. At the census in 2000 it was the poorest place in the United States with more than 1,000 people. Its income per head was $4,100. Few of the roads were paved, and many of its residents had no access to running water or electricity. The neighbourhood was close to Brownsville, a large border city, but people from the city kept their distance.

It was a dire way to live, but not uncommon along the border. Texas alone has around 2,300 of these districts, known as *colonias*. Together they have about 400,000 residents. Most are Mexican-American, born in the United States, and Spanish is the common language.

The *colonias* were built to meet the demand for cheap housing, with little concern for structural integrity or standards of living. Many were built on flood plains, meaning residents are stuck in a mosquito-infested open sewer after every heavy rain. Most of the counties and cities on America's southern border are poor, with correspondingly wretched schooling and health care. But even against that background, the *colonias* are in a stark state.

On the most recent estimates, income per head in Cameron Park is up to about $5,700. To some extent, the modest uptick in income and standards of living reflects the precipitous growth of the Texas-Mexico border. Brownsville has about 170,000 people, up 30,000 from ten years ago, and income per head there has grown to nearly $12,000, from $10,000, during that time.

But the *colonias* have also had some help since the abysmal conditions began to draw more statewide attention. In 1999 Texas authorised a *colonias* initiative to co-ordinate state efforts to improve transport, housing, health and water, and hundreds of millions of state dollars have been allocated for the work over the past decade. In December 2010 a report laid out details of modest progress so far. Looking at six of the counties along the border, it found that in 2006 about 63,000 people lived in "red"*colonias*, which have no drinkable water or drainage, compared with 145,000 in "green" *colonias* (basic infrastructure, including sewerage and paved roads). In 2010, 45,000 people lived in the reds and 194,000 in the greens.

That means a better standard of living for tens of thousands of people. But there is still tremendous work to be done. Eddie Lucio junior, a long-serving state senator from Brownsville, argues that the biggest troublemakers now are unscrupulous developers, who can be regulated only by the state. There is certainly no shortage of people who are keen to own a little home. New *colonias* are still being built.

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Miami's concert hall

From the New World

Jan 27th 2011 | *MIAMI* | from PRINT EDITION

Something else to look at on Miami Beach



WHEN Michael Tilson Thomas was a boy growing up in Los Angeles, the young Frank Gehry sometimes acted as his babysitter. Since then Mr Gehry has become one of the world's most famous architects and Mr Thomas a prominent conductor, and the two have remained friends. Now they have collaborated. On January 25th Miami unveiled the latest addition to its fast-improving cultural scene. The New World Centre, a gorgeous new concert hall designed by Mr Gehry, staged its first concert the following night with Mr Thomas conducting works by Wagner and Copland.

The centre is home to the New World Symphony (NWS), an orchestral academy for young musicians founded by Mr Thomas in 1987, which used to be housed in a disused theatre. The new building, which sits in a park of palms and pergolas draped in bougainvillea, is Mr Gehry's second concert hall in a decade; Disney Hall opened in Los Angeles to rave reviews in 2003. Mr Gehry's unmistakable post-modernist touch, combining sweeping curves and use of natural light, is evident everywhere.

Most of the east-facing facade is a seven-storey glass curtain-wall allowing people in the park to see inside, including into some of the six practice rooms. Another wall, 7,000 square feet (650 square metres) in size, will display video art and broadcast live concerts to audiences in the park.

Mr Thomas is the musical director of the San Francisco Symphony as well as principal guest conductor of the London Symphony Orchestra. But his passion has always been to help young musicians. Each year the NWS offers 30 three-year fellowships to graduates of leading universities and music schools, to hone their skills. The orchestra also performs around 70 concerts a year.

The concert hall and rehearsal spaces are wired for the internet with 17 miles (27km) of fibre-optic cable. This means that young students in Miami can practise under the guidance, for example, of players in the Vienna Philharmonic. As Mr Thomas's friend, Mr Gehry, assured him recently: "The technology has finally caught up to where your imagination has always been."

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Water worries

The drying of the West

Jan 27th 2011 | *HOOVER DAM* | from PRINT EDITION

The Colorado River and the civilisation it waters are in crisis



That sinking feeling

STANDING on the Hoover Dam and looking upstream at Lake Mead, America's largest reservoir, the visitor notices a wide, white band ringing the cliffs. Nicknamed "the bathtub ring", this discolouration comes from minerals that were once deposited on the volcanic rock by the Colorado River and have become visible as its level has dropped. It is one sign of a water crisis that threatens America's south-west.

Other reminders abound. Farther upstream there are dry docks, jutting out ominously into desert, where boats were once moored. In one finger of Lake Mead buildings that were abandoned in the 1930s, as the water of the newly dammed river rose and submerged them, have eerily begun reappearing, like a ghost town.

The main reason why Lake Mead, currently only 40% full, has been getting emptier is a decade-long drought. Whether this is a cyclical and normal event, or an early sign of climate change, is unclear. But even if the drought ends, most scientists think global warming will cause flows on the Colorado River to decrease by 10-30% in the next half century, says Douglas Kenney, the director of a water-policy programme at the University of Colorado Law School.

The other reason, says Mr Kenney, is the rapidly increasing demand for the river's water. The Colorado provides much or most of the water for many cities and farms in seven states-Colorado, Wyoming, Utah, New Mexico, Nevada, Arizona and California-before it peters out in the sands of Mexico.

In the northern states, its water supports cattle empires. In its southern stretch, especially in California's Imperial County, the river irrigates deserts to produce America's winter vegetables. And all along the way, aqueducts branch off to supply cities from Salt Lake City and Denver to Phoenix and Los Angeles. The metropolis closest to Lake Mead, Las Vegas, gets 90% of its water from this one source.



That is why Las Vegas is a canary in the mine shaft, as Pat Mulroy, the boss of the Southern Nevada Water Authority, puts it. The Las Vegas valley gets its water through two long channels drilled through the rock. The first taps the lake at 1,050 feet (320 metres) above sea level, the second at 1,000 feet. Lake Mead's water level is now near its record low, at 1,086 feet. Within a few years it could leave Las Vegas's first intake, or even both, dry.

The threat to Sin City is a good example of the four dimensions-physical, legal, political and cultural-of water in the West. For the physical, the standard response is to summon the engineers. Ms Mulroy already has them digging a third intake at 890 feet. Given the weight of the water on top, this is fiendishly difficult and will not be ready until 2014. Ms Mulroy also wants to pipe groundwater from the rural and wetter northern counties of Nevada to Las Vegas, but that has caused a vicious row.

Another response is to call in the lawyers. This was the preferred approach a century ago, in the era of the "water wars". Starting with the Colorado River Compact of 1922 and continuing with statutes, a treaty with Mexico and case law until the 1960s, a truce was achieved. Called the Law of the River, the resulting regime determines who along the river has what right to how much water.

At least, it does in theory. The problem is that the law took shape after two decades of record water flows, which became the basis for allocation. As a result it apportions more water than there is in the river. For decades that did not matter, since there were so few people. Then the cattle, fruit and people using the river multiplied.

The law's seniority rules theoretically mean that, for example, the taps to Las Vegas would be shut completely before a single lettuce-grower in California's Imperial County lost a drop. This "idiocy of who gets cut first and second", as Ms Mulroy calls it, gives rise to the political dimension. These days, co-operation has supplemented, if not wholly replaced, the old rivalries among agricultural and urban users, and among the seven states. Nevada and Arizona, for example, have a water-banking partnership, whereby Arizona stores excess water in its aquifers so that Nevada could use it in a pinch. In California, the water utility of Los Angeles has bought water rights from farmers in Imperial County. But arguments persist.

The final dimension is the culture of the West. Does every middle-class house really need a lawn in a desert? Ms Mulroy has already started paying Las Vegans to rip out their turf and opt for desert landscaping, which can be chic. Her own husband put up a fight but lost. So out went that lawn, too, just as the low-flow toilets and taps came in.

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Lexington

The ghost of Gingrich

Remember that thriller from 15 years ago? Prepare for a sequel, or two



HISTORY never repeats itself exactly, whether as tragedy or farce, but when Barack Obama gave his state-of-the-union address to Congress this week there was no escaping the ethereal presence of a spirit from time past. Many of the greyer Republican heads, inevitably, were consulting their memories of 1995, and in particular of the antics at that time of one of America's most pyrotechnical politicians, Newt Gingrich.

The similarities between 1995 and 2011 are inescapable. Two years after the election of a Democratic president his party receives a pasting in mid-term elections and the Republicans seize control of the House. These particular Republicans see themselves as revolutionaries determined to slash down big government. They pick a fight on the federal budget and the debt ceiling. When the president refuses to cave, they cut off funding and the government grinds to a stop-twice. Ultimately, however, voters choose to blame the Republicans, and the president, Bill Clinton, is later elected for a second term.

In the 2011 replay of this old movie, the action has reached the early stages of the budget showdown. The gripping question is whether the reel will now advance to the same government shutdown and the same happy denouement for the Democrats. Nobody yet knows. What can be noted, however, is that as well as similarities there are some striking differences between the original version and the sequel.

Consider, for a start, the casting of the speaker. John Boehner, today's leader of the House Republicans, is no Newt Gingrich. True, he can put on a bit of a show: he quivered with anger during last year's health-care debate, and he has an unusual habit of weeping inexplicably on public occasions. But on the whole the lachrymose representative from Ohio is a steady, straight-talking, country club sort of Republican, chummy with lobbyists, free of pretension, who worked happily enough with Democrats on George Bush's No Child Left Behind Act.

Mr Gingrich, a walking, talking, and sometimes dangerously undisciplined ideological fireworks display, was a different species of politician altogether. Moreover, he was the undisputed director, producer and leading man of the Republican show in 1995. That, says Bill Galston, who was one of Mr Clinton's advisers then and is now a senior fellow at the Brookings Institution, put him in an entirely different position from Mr Boehner's. The earlier speaker was himself the leader and instigator of the conservative revolution that restored the House to the Republicans after 40 years in the wilderness. The present one finds himself in charge of a revolution he did nothing to discourage but did not create. The tea-party movement did that.

What do these differences tell you about the next step in the present showdown between the Republican House and the Democratic president? Be careful: this is a trick question.

By temperament and experience, Mr Boehner is a cautious fellow. Moreover, unlike Mr Gingrich, he has the benefit of knowing what happened after Mr Gingrich pushed his luck and led his party over a cliff. All this suggests that the Republicans will not risk making the same mistake again. But that conclusion rests on two flawed assumptions: first, that Mr Boehner is in charge of the decision-making, and, second, that the rest of his party sees the same lesson in the events of 1995.

In fact, of course, Mr Boehner cannot dream of controlling the House Republicans the way Mr Gingrich did. His colleagues do not feel that they owe him their allegiance, let alone their jobs. As Henry Olsen, vice-president of the conservative American Enterprise Institute, points out, many have money and support of their own from the tea-party movement, beyond the purview of the Republican Party itself. The fact that Michele Bachmann, leader of the House tea-party caucus, insisted on giving her own response to Mr Obama this week shows how prickly this faction can be. And although today's House Republicans have inhaled less hubris than they did in 1995, not all of the newer ones are so sure about the lesson of that year. Perhaps, they wonder, a government shutdown could be made to play better next time.

Alas for lovers of certainty (and Democrats), this does not mean that there will inevitably be a mutiny in Mr Boehner's ranks. Though he lacks his illustrious forerunner's intellectual flamboyance, the present speaker has so far done a workmanlike job of keeping the peace between the new revolutionaries and the party establishment. Nor should the friction between those factions be exaggerated. In general, in point of fact, today's congressional Republicans are more solidly conservative than they were during the Gingrich revolution. If there are to be disagreements, says Matt Kibbe, president of FreedomWorks, an organisation that has helped tea-party groups throughout the country, they will be on tactics, not the broad direction of policy.

Undead

It is interesting to speculate on what the ghost of Mr Gingrich thinks of all this. Or it would be, if he were really a ghost. But he is in fact not only alive but still a force in Republican politics. He will almost certainly seek the party's presidential nomination for 2012, especially if one of the other leading Republican populists, Mike Huckabee or Sarah Palin, decides not to run. He denies that he got it wrong in 1995 (because the upshot was balanced budgets, and though Mr Clinton was re-elected the next year, the Republicans held the House) and shows no sign of having mellowed in the past decade and a half. To the contrary: his recent fulminations about Islamic sharia law sweeping America and the iniquities of Barack Obama's "secular socialist machine" suggest that he sees the ultra-right of the party as his key to the nomination. If he does become the nominee, book your seats early.

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Mexico's presidential campaign

Saddling up for the trail to Los Pinos

Jan 27th 2011 | *MEXICO CITY* | from PRINT EDITION

Can anyone stop Enrique PeÃ±a Nieto (pictured, second from left) restoring the PRI to power next year?



THE election is not until July of next year, but the beating of a party activist into a coma on January 12th, apparently by a rival party's mob, signalled the start of what will be a long, rough campaign for the presidency of Mexico. Candidates are jostling for party nominations, and lieutenants are preparing for the election of six governors this year, the first of them in Guerrero state on January 30th. Already the main question is whether anyone can prevent the Institutional Revolutionary Party (PRI), which ruled Mexico as a one-party state for seven decades until 2000, from returning to Los Pinos, the presidential residence.

Opinion polls vary widely, but all show the PRI with a lead (of up to 20 points) over the conservative National Action Party (PAN), which has held power for the past decade. It is not hard to see why: although the economy is now recovering strongly, Mexico was badly hurt by the great recession, and the war against organised crime unleashed by the current president, Felipe Calderon, has led to a big increase in violence. The PRI also has the advantage of a strong standard-bearer in the form of Enrique PeÃ±a Nieto, the telegenic young governor of Mexico state, a territory of 15m people which sprawls around the capital. Mr PeÃ±a Nieto, a widower who recently married a *telenovela* star, is known by nine out of ten Mexicans and liked by three-quarters of them. Although he has yet to be formally adopted as the candidate, his party seems to have closed ranks around Mr PeÃ±a Nieto. The PRI's leaders are aware that poisonous infighting ahead of the 2006 election cost the party support.

The PAN and the left-leaning Party of the Democratic Revolution (PRD) are in a sorry state by comparison. Mr Calderon has shown a tendency to reward loyalty over talent in his cabinet, with the result that the PAN's contenders are a lacklustre bunch. The only one known by more than a third of voters is Santiago Creel, whom Mr Calderon beat in a party primary in 2005 and who is now the PAN's leader in the Senate. The party is in peril of coming third, suspects Jose Crespo, a political scientist at CIDE, a university in Mexico City.

The PRD has the opposite problem: two powerful contenders who threaten to cancel each other out. Marcelo Ebrard, the mayor of Mexico City, is a capable technocrat. But he lacks charisma. And he might have to share the left-wing vote with Andres Manuel Lopez Obrador, his predecessor as mayor who narrowly lost the 2006 presidential election. Mr Lopez Obrador is a magnetic rabble-rouser who alienated the moderate majority by his refusal to abide by democratic rules and accept defeat in 2006 (he still calls himself the "legitimate president of Mexico"). If Mr Ebrard wins the PRD's nomination, Mr Lopez Obrador may well run against him for a fringe party. The PRD's schism cannot be mended "even by a saint's miracle", its founder, Cuauhtemoc Cardenas, lamented recently.

All this bolsters the PRI's message that it is the only party competent to govern. Its pitch, implicitly, is that it would not have allowed criminal violence to get out of hand. While the PRI was in power, "I never saw a decapitation in the streets of Mexico," says Cesar Augusto Santiago, one of its leaders in the legislature. Yet how the PRI would tackle the drug gangs is unclear. Mr PeÃ±a Nieto, for instance, eludes the question of whether he would withdraw army troops who are policing some cities. Instead, the party's strategists say they will focus on reducing inequality. That may be a canny move, given that economic concerns still trump security worries in opinion polls (though the gap is narrowing).

The PRI's biggest weakness is the perception that it has failed to renew itself in opposition, and retains the authoritarian and corrupt characteristics of its past. Six years ago, during the ineffectual rule of Vicente Fox, the first PAN president, political analysts were confidently predicting that the PRI would return to power-only for Mr Calderon (and Mr Lopez

Obrador) to thwart it. The coming year holds more booby traps for the PRI than its rivals. Of the six governorships up for grabs, none is currently held by the PAN, giving it nothing to lose. It expects to do well in thinly populated Baja California Sur next month, and has a good chance of winning Mr Calderon's home state of Michoacan in November (possibly with the president's sister, Luisa Maria, as its candidate).

The PRI looks certain to hold the northern state of Coahuila in July. But it is facing unexpected problems in its bid to snatch Guerrero from the PRD. One of Mexico's poorest states, badly run and with the third-highest body count in the drug war, Guerrero is ripe for change. The PRI candidate's face is plastered across every lamppost and taxi window in some towns in the state. Yet polls showed the PRD narrowly ahead, even before the PAN candidate stood down this week and endorsed the PRD. A similar alliance wrested power from the PRI in three states last year.

But the PRI looks better placed in the all-important election to replace Mr PeÃ±a Nieto as governor of Mexico state in July. The PRI has held the state, where the demographic mix mirrors that of the country as a whole, for 82 years. Losing it would be a near-fatal blow to Mr PeÃ±a Nieto's presidential ambitions. But fortunately for him, talk of a PAN-PRD alliance there has faltered. The PRD is poised to endorse Alejandro Encinas, an ally of Mr Lopez Obrador who is anathema to the PAN.

The PAN and PRD will also have to overcome huge obstacles if they are to join forces for the presidential contest. Mr Ebrard has the strongest cross-party appeal, but his time in charge of Mexico City, home of abortion, gay marriage and other ungodly pursuits, would be held against him by the conservative, Catholic PAN. Difficult, but perhaps not quite impossible: Mr Calderon's desire to stop the PRI should not be underestimated. For the moment, though, the race seems increasingly Mr PeÃ±a Nieto's to lose.

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Executive pay in Brazil

Top whack

Jan 27th 2011 | *SÃƒO PAULO* | from PRINT EDITION

Big country, big pay cheques



WHERE does a senior manager cost most? Brazil, according to the Association of Executive Search Consultants (AESC), a trade body. Two recent surveys, one by the AESC and the other by a Brazilian headhunter, Dasein Executive Search, found that chief executives and company directors earned more in Sao Paulo, Brazil's business capital, than in New York, London, Singapore or Hong Kong (see chart). The surveys compared base salary, but bonuses in Brazil are generous too,

says David Braga of Dasein. And the comparison understates the cost of hiring in Brazil: its payroll taxes are among the world's highest.

Part of the reason for runaway executive pay is booming demand for staff, at all levels. Brazil, China and India are all seeing strong growth in employment. But according to Manpower, another employment agency, the mismatch between supply and demand is starkest in Brazil, where 64% of employers report difficulty filling vacancies, against 40% in China and 16% in India. Managers with technical backgrounds are especially scarce in Brazil: big oil finds and infrastructure plans mean demand is soaring, but Brazil turns out just 35,000 engineers a year, against India's 250,000 and China's 400,000.

The strength of the real artificially boosts Brazil's position in international pay comparisons. But even in reais executive pay is growing by double digits a year, says Edilson Camara of Egon Zehnder, a headhunting firm. Senior managers in China and India are reaping similar gains, but from a lower base. Multinationals that used to run their Latin American operations from Miami, Mexico or Buenos Aires have mostly shifted to Sao Paulo; China and India are still often overseen from Singapore or Hong Kong, though Shanghai is becoming more popular. A wave of foreign takeovers, and forays abroad by Brazilian firms, have both increased demand for managers with international experience.

The solution is to nurture your own talent, says Alexander Triebnigg, who runs the Brazilian operation of Novartis, a Swiss pharmaceutical company. Brazilian employees tend to be loyal, he says, meaning that established firms with generous career-development plans are less hurt by the talent drought. But this loyalty also tends to inflate the market rate. "If you want to tempt a Brazilian to change jobs," he points out, "you have to offer them a lot more money. In China they'll change jobs for just a little more."

Many firms are looking outside to fill top posts. But a high crime rate (Sao Paulo is far safer than it used to be, but still boasts a murder rate nearly double that of New York) and the need to master Portuguese put many foreigners off. And even big Brazilian companies may lack the international renown needed to entice the most ambitious. "Busy people may not listen to what you have to say about the complexity and size of some Brazilian company they've never heard of," complains Mr Camara.

The biggest beneficiaries of Brazil's war for talent are likely to be its expatriate managers. Mr Braga of Dasein says the motive for his research on pay was the ten or so unsolicited inquiries his firm receives each day from Brazilians living abroad who are thinking of returning home-even though most of them mistakenly thought that doing so would mean a pay cut.

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Conservatism in Alberta

Prairie fire

Jan 27th 2011 | *OTTAWA* | from PRINT EDITION

A split in Canada's most powerful right-wing political machine

OVER the past four decades Alberta's wealth of oil and gas has turned a former prairie backwater into one of Canada's most powerful provinces. But for much of that time its politics has been the epitome of dullness. The only real question at elections was how big a majority the Progressive Conservatives, who first came to power in 1971, would get in the provincial legislature. In the 2008 election Ed Stelmach, a farmer, led the governing party to the largest majority ever won by a new premier, taking 72 of 83 seats. But despite that seemingly impressive triumph, his party was already fracturing. The divisions became public on January 25th, when Mr Stelmach announced that he plans to step down after his government unveils its budget in a few weeks' time.

Were this no more than the result of an internal coup, few Canadians would sit up. But the Conservatives face unaccustomed opposition to both right and left. Ordinary Albertans care about strains in their health service and the

budget deficit. And the provincial government's mismanagement of the tar sands has damaged Alberta's international reputation and left oil bosses privately calling for stricter regulation.

Mr Stelmach seems to have been pushed out by his own party's fiscal hawks, led by Ted Morton, his finance minister. The premier wanted to balance the budget gradually, without big cuts to services. Mr Morton, a leader of the party's right-wing brought in by Mr Stelmach last year, wants fiscal balance now. Mr Morton and his allies in the party worry about the rise of the Wildrose Alliance, a libertarian, small-government group which won its first seat in the legislature in a by-election in 2009 but has since attracted three Conservative defectors and drawn close to the ruling party in some opinion polls. Its leader, Danielle Smith, sparkles in comparison to the Conservatives' dull suits.

More surprisingly, the left is also showing signs of life in the shape of the Alberta Party, a moribund group newly revived last October by two smaller outfits. It gained a voice in the legislature when a former Liberal elected as an independent said he would represent the new party. The Liberals have been shunned in Alberta since the 1980s when a Liberal federal government imposed an energy plan widely seen by westerners as benefiting the rest of Canada at their expense. But with its new and different banner, the Alberta Party will hope to attract centrists dismayed by the Conservatives' impending lurch further to the right.

Mr Morton, beaten by Mr Stelmach in a leadership election in 2006, may now take over as Conservative leader. He might steal the Wildrose ground. But Albertans have a habit of rejecting former governing parties so decisively that they disappear from the political landscape. That happened with the Social Credit party in 1971 and the United Farmers in 1935.

If this were to happen again it would reverberate across Canada. Alberta has become the spiritual base of Canadian conservatism, and it is the adopted political home of Stephen Harper, the country's Conservative prime minister. Whatever happens, Alberta's politics have finally become more interesting.

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Canada's civil service

Oui, ministre

Jan 27th 2011 | *OTTAWA* | from PRINT EDITION

A tool for linguistically joined-up government



BUREAUCRATS the world over are famous for their ability to describe the most mundane matters in such convoluted terms that only other civil servants understand what they are saying. Canadian bureaucrats require an additional skill: almost half the jobs in the 200,000-strong federal civil service demand someone who can obfuscate in two languages at once. The Canadian government spends at least C$30m ($30m) a year on training civil servants to use both official languages, English and French, yet such is the subtlety of bureaucratese that graduates can still find themselves reaching for the *mot juste*.

Enter Dick de Jong, a retired civil servant, who has just published "The Bilingual Vocabulary for Governance, Public Policy and Administration". Its door-stopping 591 pages walk civil servants through almost every subject they might have to deal with on the job, starting with democracy and ending with space exploration. Phrases that currently trip off the governmental tongue, such as "a time of financial constraint" (*une periode de restrictions financieres*) appear, as do ones that ministers who had to answer for the Canadian army's treatment of Afghans might like to forget, like "missing detainees" (*les detenus disparus*). There are helpful euphemisms. Recession? No, just *une correction passagere*. Mr de Jong says that, although he is a fan of plain language, he had to deal with terms bureaucrats normally use.

Authors need only sell 5,000 copies to have a bestseller in Canada. Mr de Jong is not there yet. But his target audience, civil servants at the federal, provincial and municipal levels plus students of public administration at Canadian universities, is large enough to propel him up the rankings. Sales were brisk at an Ottawa bookshop. "It's not 'The Girl with the Dragon Tattoo'," said Trish Slater, a saleswoman. "But it's selling very well." No word yet on whether there will be a movie.

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Security in Colombia

Guerrilla miners

Jan 27th 2011 | *BOGOTA* | from PRINT EDITION

The FARC turn to gold



Ounce for ounce, more valuable than cocaine

WHEN last September government forces seized computer hard drives and memory sticks belonging to "Mono Jojoy", the military commander of the FARC who was killed in an assault on his camp, officials said they had struck a gold mine of information about the inner workings of Colombia's main guerrilla group. It turned out that they had also gained data about real gold mines under the FARC's control, as Juan Manuel Santos, Colombia's president, revealed this month.

With the price of gold close to record levels, and with government action having reduced the guerrillas' income from kidnapping and drugs, some FARC fronts are now financing themselves through illegal mining. In captured e-mails, guerrilla leaders offered to pay for weapons, munitions and other supplies with gold, according to Mr Santos. A police investigation predating the discovery of the files found evidence that the FARC controlled up to 15 gold mines just in Bolivar department, in northern Colombia. Officials say that in some areas the FARC mines gold directly whereas in others it extorts "tax" payments from small-scale, and mainly illegal, miners. Criminal gangs that have sprung from the remnants of right-wing paramilitary groups have also gone into mining.

Officially Colombia is in the second tier of world gold producers, with an output of 48 tonnes in 2009. The real figure is higher. Much gold mining has long been by unregulated miners. They are among the worst despoilers of Colombia's environment, releasing mercury in rivers and clearing forest. Mercury levels in the air in Segovia, in Antioquia department, have been measured at up to 28 times the level considered safe by the World Health Organisation.

The government is now cracking down on the illegal miners. Police have shut down 56 outfits controlled by the FARC or the neo-paramilitaries, arresting 573 people. Mr Santos wants to "formalise" legitimate small-scale miners, subjecting them to government regulation, while stripping the guerrillas and criminal groups of their new source of income.

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Afghanistan's crucial year

An orchard of ills

Jan 27th 2011 | *KABUL* | from PRINT EDITION

A stand-off between the president and parliament mocks the challenges Afghanistan faces



FOREIGN backers have a maddening habit of declaring any forthcoming 12 months to be the "crucial year" for Afghanistan. Liam Fox, the British defence minister, was no exception when he used a New Year's visit to bill 2011 as decisive for international efforts in the country. But like so many before him, Mr Fox may be disappointed. Even as the West's soldiers make progress, its diplomats bang their heads against the lamentable administration of Afghanistan's president, Hamid Karzai.

After years of losing ground to insurgents, General David Petraeus, the NATO commander in the country, says that the coalition has at last "got the 'inputs' right in Afghanistan for the first time". As he wrote to his troops this week, "hard-won progress" has taken place in the southern provinces of Kandahar and Helmand, swamped with American marines after

years of being in the charge of overstretched Canadian and British forces. Analysts say the campaign has disrupted Taliban supply lines in Helmand and cleared most "safe havens" there. Mr Fox, in another staple of foreign dignitaries, visited the bazaar of Lashkar Gah, Helmand's capital, and declared it safe and "thriving".



General Petraeus also hails the "enormous losses" inflicted on mid-level commanders of the Taliban and its associates in the Haqqani network. The losses help fuel "reports of unprecedented discord among the members of the Quetta Shura", the Taliban's leadership. For 2011, the general flags up a continued push against the Taliban, particularly in the south; the strengthening of governing institutions; and the transfer of security in some provinces to Afghan forces-with the Afghan National Army taking the lot by 2014.

The coalition's sense that the counter-insurgency campaign might just be doing good is bolstered by NATO's little-known programme of "atmospherics" reporting, in which ordinary Afghans eavesdrop on their countrymen's conversations in the bazaars and report back to their handlers. In recent months this monitoring has shown a growing confidence that the Taliban is much diminished. Southern Afghans tell *The Economist* similar stories of Taliban commanders having fled, leaving ineffective or unwilling locals to carry on the fight.

Yet such gains have a cost. Vastly increased night raids by special forces directed against mid-level commanders create seething resentment in local communities. In a striking departure from most people's understanding of counterinsurgency doctrine, scores of compounds in rural Afghanistan have been flattened by air strikes because the coalition believed they had been rigged with explosives-"building-borne IEDs", in the NATO jargon. Precious fruit orchards, of exactly the sort that for years have been hailed as an alternative to growing opium poppies, have also been razed to deny insurgents cover.

This makes some independent observers sceptical of reported progress. The Afghanistan NGO Safety Office, which monitors security risks on behalf of aid organisations, says NATO claims are mere "strategic communication" cynically designed to bolster Western public opinion. It reported that in 2010 insurgents increased attacks by nearly two-thirds, and that the NATO operations in Helmand and Kandahar served mainly to fan the insurgency into other areas.

Even if military gains are not as illusory as critics say, they do little to help Afghans in two matters: tackling corruption and building a functioning government. One "input" here has been a civilian "surge", led by Karl Eikenberry, the American ambassador, to match the better-known military one. A whispering campaign among some military men has begun against Mr Eikenberry, whom they charge with overseeing wasteful projects that merely enrich foreign contractors.

But the other input-the Afghan government-is almost completely beyond the reach of men like General Petraeus and Mr Fox. In recent weeks Mr Karzai has created unwanted turmoil, for the second year running. When he refused to accept the results of elections to the parliament that were not to his liking, he brought the country to the brink of a constitutional crisis.

First, Mr Karzai set up his own special court to investigate electoral fraud in the September elections, an initiative which the country's two election commissions declared illegitimate. Then he attempted to delay the opening of parliament by a further month to allow the court's investigations to continue. He backed down only after pressure from elected MPs and foreign governments-though not without first declaring how he resented the interference of such "foreign hands". After a tense stand-off, Mr Karzai formally opened the parliament on January 26th-four months after the elections.

Mr Karzai's new concern for electoral malpractice had little to do with any desire to root out electoral fraud, however widespread. It comes, after all, from a man who received at least 1m rigged votes in 2009. His sympathisers say the

president's chief concern was that, thanks to malpractice and a lack of security, too few members of the country's volatile Pushtun community managed to get elected.

Critics take a harsher view, saying Mr Karzai is worried about a more hostile parliament dominated by an enlarged block of opposition MPs. Either way, the legitimacy of the parliament has taken a knock, and the dispute with new MPs will drag on. As part of the deal to open parliament, the special court remains. It is likely to try to remove sitting parliamentarians. Meanwhile relations between Mr Karzai and his international backers have dipped to yet another new low. It is a bad start to yet another "crucial year".

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Afghanistan and Iran

Edgy neighbours

Jan 27th 2011 | *KABUL* | from PRINT EDITION

Relations between Afghanistan and Iran are not what they may seem



IS IRAN unwittingly sending supplies to American forces in neighbouring Afghanistan which may in future be used against it? That fear lies behind Iran's recent decision to block the trans-shipments of fuel to its landlocked neighbour, causing shortages and price rises, and leading Afghanistan's chamber of commerce to threaten a trade embargo.

The Afghan government, and the NATO forces it hosts, insist that the petrol and diesel in question serves civilians alone. But Iran thinks it no coincidence that trans-shipments more than doubled in 2010, when America launched its "surge" against the Taliban. In public Iranian officials blandly attribute the bottlenecks to "technical" problems linked with their own recent decision to lift fuel subsidies. But privately, says Waheed Mujdeh, an Afghan specialist, they insist recent fuel purchases "exceed Afghanistan's civilian needs".

The spectacle of hundreds of stranded fuel tankers at the border crossing of Islam Qala, in north-eastern Iran, recalls similar scenes last autumn along Pakistan's frontier with Afghanistan, when the Pakistanis blocked traffic in protest against American missile attacks on their territory. Iran's government fears more calculated American hostility, perhaps in conjunction with a long-mooted aerial assault against the country's nuclear installations. The Iranians already accuse America of exploiting its presence in Afghanistan to foment a separatist insurrection by the nomadic Baluch, whose territory straddles Iran, Afghanistan and Pakistan.

Iran's Afghan policy has been to make life uncomfortable for the occupiers but without destabilising its own borderlands. To this end, Iran trains the Taliban and furnishes it with light weapons but carefully directs the militants to the south and east of Afghanistan. Besides a shared antipathy to America, little common ground stands between Shia Iran and the militantly Sunni Taliban, and the Iranians regard President Hamid Karzai as the better long-term bet, providing cash (bags

of it, according to WikiLeaks) and applauding his increasingly anti-American stance. The Iranians also fund schools, mosques and the media.

The Americans are caught between two conflicting desires: to stabilise Afghanistan and to destabilise its western neighbour. They endorse the idea of a regional solution to Afghanistan's problems yet hit Iran with sanctions because of its nuclear programme. The Iranians, for their part, mull a regional conference on Afghanistan, an empty gesture, for the Americans would not attend. As often with outsiders, helping the Afghans may not actually be the main point.

Myanmar's sham legislature

A parliament, but not as you know it

Jan 27th 2011 | *Singapore* | from PRINT EDITION

A far cry from real representation



IN THE sprawling new capital of Naypyidaw, Myanmar's enormous showcase parliament building awaits its first legislators. After a general election in November, the military government hopes that the opening of the bicameral parliament on January 31st, amid suitable pomp, will appear to usher in a new democratic era. Its first job will be to form an electoral college to choose a fresh president and two vice-presidents.

Also awaiting the legislators will be the new laws and rules governing their conduct, published with rather less fanfare on January 11th and running to 17 bound volumes. These give a better guide to what might be expected of the new parliament than any pronouncements by the regime. According to those who have seen the rules, MPs may not, for example, simply ask a question. They first have to submit the question to the director-general of the lower house ten days before a parliamentary session, after which it will be vetted to ensure that it does not reveal state secrets, trouble international relations, or undermine the "interests" of the state. Should the poor, defenceless question survive that mangle, the speaker of the lower house still has the right to reject it, with no appeal.

Members themselves have been warned not to bring "cameras, radios, cassette players, computers, hand phones, and any kinds of voice-transmission or recording devices" into parliament on opening day. And no citizen should even think of turning up to sample the cut and thrust of parliamentary debate. Without the direct permission of the speaker, such an enormity would warrant at least a year in prison or a hefty fine.

Both the lower and upper houses will be dominated by the Union Solidarity and Development Party (USDP), a proxy for the military government. The USDP won an overwhelming majority of seats at the election, in part because of a boycott by the main opposition party, the National League for Democracy (NLD), led by Aung San Suu Kyi, released in November from house arrest. The NLD won the previous free election in 1990.

In both houses the USDP has nearly four-fifths of the contested seats. Meanwhile, the army has a reserved quota of a quarter of all seats in both chambers, as well as in the regional state parliaments. A military-controlled parliament therefore has the means to keep dissent to a minimum. The dictator, Than Shwe, could easily win the presidency should he want it. He may, however, prefer to stay in the background and pull strings.

Parliamentary opposition, such as it is, will come from two sources, the National Democratic Force (NDF) and the so-called ethnic parties, 17 of which won at least one seat, representing Myanmar's diverse ethnic patchwork. The NDF is made up mostly of former members of the NLD who disagreed with Miss Suu Kyi's call to boycott the election. They won a mere 16 seats, but have been talking a good game in the run-up to parliament's opening. Khin Maung Shwe, a senior NDF official, argues that "although we have small numbers, we have a chance to use our voice on behalf of the people." He says that the NDF will table three motions: an amnesty for political prisoners, a new competition law for business and a new law concerning rights to agricultural land.

Still, given the numerical and procedural odds against it, the opposition will struggle to make headway. Indeed, by taking part in a democratic charade, the NDF might merely provide a figleaf for the dictatorship. As it is, ASEAN, the ten-nation Association of South-East Asian Nations, is using the opening of parliament to argue for the lifting of longstanding Western sanctions on the grounds that the country has reformed itself. Mr Khin Maung Shwe rebuffs his party's critics, arguing that the NDF is "neither a military puppet nor on a confrontational line".

More might be expected of the ethnic parties, as they at least have sizeable minorities in the seven state legislatures (out of 14) to which they were elected. Nonetheless, it is certain that the central government will want to keep a tight control over these assemblies too. The state parliaments will not sit in their regional capitals, as you might imagine, but in the parliament building at Naypyidaw.

The NLD, for its part, dismisses the parliament as a sham. Win Tin, a party official who was jailed for 19 years before being released in 2008, says that "the parliament is nothing. Whether inside parliament or outside, the situation is almost the same. You have no freedom of expression."

Instead, Mr Win Tin says, the NLD can act "as a second government". Although the NLD is still fighting in the courts to regain its legal status as a political party, forfeited because of last year's election boycott, it realises it needs to be more creative in its opposition. One idea is to use the internet to create a sort of "online parliament", where issues can be debated among those in opposition, both inside and outside the country. This week Miss Suu Kyi got her first internet connection. She has also been spending a lot of time visiting welfare and other programmes run by her party to try to rebuild it from the grassroots.

Despite government hopes that parliamentary sittings will sideline Miss Suu Kyi, evidence suggests that she remains as popular in Myanmar as ever. Indeed, the real test of the regime's claims to be heading in a new democratic direction will come not in parliament but when Ms Suu Kyi tries to travel out of Yangon, taking her message to the rest of the country. That is when the regime has clamped down hard before, forcing Miss Suu Kyi to endure years of house arrest. Will it dare to do so again?

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Electoral reform in Japan

Breaking the backs of farmers

Jan 27th 2011 | *TOKYO* | from PRINT EDITION

Can Japan curb the power of its rural voters?



TOTTORI prefecture on the Sea of Japan is known for its vast sand dunes and for having the smallest prefectural population in Japan, of which about one in six lives on a farm. In last summer's election for the upper house, its 500,000-odd voters sent one representative to the Diet (parliament). Kanagawa prefecture, a gritty industrial area that borders Tokyo, has more than 7m voters of a much younger average age. Yet its electorate directly voted for just three upper-house seats.

Since the election, high courts up and down Japan have ruled that having a vote in Tottori weigh about five times more than in Kanagawa is unconstitutional or "in a state of unconstitutionality". None has nullified the election. But the threat that one day the judiciary might throw Japan's upper house into a constitutional crisis has goaded politicians from all parties to consider overhauling the electoral system for the so-called House of Councillors.

Not only legal reasons argue for reform. On January 24th Naoto Kan, the prime minister, articulated two bold proposals at the opening of the Diet, both of which are likely to be fiercely resisted by over-represented elderly farmers in places like Tottori: overhauling the tax and social-security system, and embarking on talks to join the Trans-Pacific Partnership (TPP), an emerging free-trade block including America. To persuade opposition parties to support a higher consumption tax and the TPP, a cut in the number of costly upper-house seats, from today's 242, may be proposed as part of the electoral reform.

The president of the upper house, Takeo Nishioka, is an unlikely figure to be spearheading the mission. At 74, he feels a bond with the ageing farmers likely to be affected. "If I think emotionally, I would not propose this." He adds that throughout his political career, he has felt that the upper house should be not simply reformed but abolished. Yet now that "destiny" has put him at its helm, he feels a duty to act.

He intends to submit a bill at the end of this parliament, when he hopes bickering over the 2011 budget and local elections in the spring will be over. It is, he says, potentially the most important reform since the creation of the House of Councillors in 1947. He believes it needs to be ready in 2013, when a general election is due.

Under the current system, voters directly elect candidates in 47 prefectures, and other candidates are selected through proportional representation. Mr Nishioka's proposal (as leader of the house, he says he is non-partisan) is to scrap the prefectural system, and replace it with proportional representation in nine supersized voting areas. For the moment, he does not envisage reducing the number of overall seats, fearing it would be too controversial.

But his party, the Democratic Party of Japan (DPJ), wants to cut the seats to 200, and an up-and-coming rival, Your Party, would like to see them slashed to 100. Other differences exist between the proposals, but Mr Nishioka believes they can be ironed out. The main obstacle comes from within the two biggest parties, the DPJ and the Liberal Democratic Party (LDP). The DPJ has a union wing well supported in rural areas. The LDP is the party of choice for farmers, who helped keep it in power for almost all of 55 years until it lost the general election in 2009.

A glance at the outcome in July's election might convince DPJ holdouts that reform serves them. The party received 39% of the vote and duly won 28 seats of the 73 district seats up for grabs. However the LDP, thanks to its rural following, won 39 seats with only 33.4% of the vote. Mr Nishioka says that one way to win over the LDP may be to persuade it that

reform of the lower house, where the DPJ has a big majority, will follow. But given their rural base, perhaps some LDP members are familiar with the English idiom about turkeys voting for Christmas.

India and the Naxalites

How not to fight terror

Jan 27th 2011 | *DELHI* | from PRINT EDITION

Convicting a human-rights activist for sedition does India's image no favours



The exemplary Dr Sen

HE WAS accused of being a Naxali *daakiya*-a postman for the Naxalites, India's leftist terror movement. Binayak Sen, a 61-year-old doctor and rights activist, was a frequent visitor to a jail in Chhattisgarh where he tended, among many others, to an elderly inmate, said to be a Naxalite leader. The visits were official: he visited the jail as a leader of a local civil-liberties group. Then in May 2007, after his 33rd visit in 18 months, the police arrested the doctor and charged him with sedition and helping a banned group.

The case looked flimsy, resting on the claim that Dr Sen has carried messages to other Maoists (as the Naxalites are also known). He denies it. The jailers, who had sat in on the 33 meetings, testified that nothing had been couriered. An unsigned letter, said to be from the leftists and thanking the doctor for help, which the police claimed they had found at his house, was the hardest piece of evidence on offer. The Bengali doctor, pointing to a dodgy paper trail, said that was planted.

Yet a local judge in Chhattisgarh-a state in Central India badly afflicted by Naxalite attacks-was unmoved. Late in December he convicted the doctor, and two others, dishing out terms of "rigorous" life imprisonment. That would be harsh, even if the convictions had been rock solid. In this case it looks extreme. Sedition, says India's Supreme Court, requires the accused to call for violence against the state. The doctor did the opposite: speaking out frequently against killings and other attacks in the state by both pro- and anti-government groups. A friend from medical school calls Dr Sen "non-violent to the point of being squeamish".

To many, Dr Sen is the victim of intimidation by a BJP-run state government fed up with his do-gooding efforts on behalf of "tribals"-indigenous folk, often in forests, whom the Naxalites also claim to care for. He had campaigned against the

authorities, helping to stop a practice of arming local vigilantes to fight against the Naxalites. Innocent people, he said, were becoming victims in something close to civil war.

Despite his age and a heart condition, Dr Sen was refused bail for two years. He is now in a maximum security cell. This week the police filed a case, in apparent intimidation, against his wife, who has cancer, on what appears to be a technicality. Amnesty International and a host of Nobel laureates have demanded his release. On January 8th Amartya Sen, an economics laureate, said his namesake's work was "exemplary" and his conviction "unjust". Human Rights Watch says Dr Sen's case underscores why India should scrap its archaic sedition law, an imperial hangover.

None of this looks good for a country that trumpets its democratic credentials. The central, Congress-run, government urges patience, saying that sympathisers of the doctor must let the full legal process run: other courts, especially higher ones outside of the state, may overturn the conviction. A first hearing about an appeal took place on January 24th.

Nor does the prosecution help the fight against the murderous Naxalites. They are only able to operate, sometimes killing dozens of people at a time, because of a degree of support in states such as Chhattisgarh from disaffected rural people who resent the intrusion of big mining and energy firms, among others, and who do not trust the state authorities. Locking up the doctor will not change their minds.

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Banyan

With respect to China

Jan 27th 2011 | from PRINT EDITION

America and China may both find it hard to live up to their latest promises to each other



WHEN the flames of ardour have burned themselves out, some squabbling couples try to rekindle the embers with a second honeymoon. Some commentators say China and America are about to embark on their third. They rank President Hu Jintao's state visit to the United States, which ended on January 21st, alongside two previous milestones in China's re-emergence as a global power: Deng Xiaoping's American tour in 1979, just after the two countries normalised relations, and Jiang Zemin's trip in 1997, formally ending the chill that followed the Beijing massacre eight years earlier and a later showdown in the Taiwan Strait. The two countries' fervent renewal of their vows is good news. But it may not be long before the crockery is flying again.

Mr Hu has a rather dour, robotic persona-more bewildered bureaucrat than crowd-pleaser. It is hard to imagine him, like Deng, donning a cowboy hat. A visitor who announces a Chinese shopping spree worth $45 billion, however, is always welcome. But the euphoric reaction in parts of the Chinese press to his reception suggested that all it took to stem an alarming slide in China's relations with America over the past year was to pay Mr Hu the respect-to give him the 21-gun salute, the Maine lobster and that Asian notion of "face"-which China feels he deserves.

There were no protocol gaffes such as those that marred Mr Hu's visit in 2006, when at one point China's national anthem was described as that of the "Republic of China", that is, Taiwan. The only questions for the trivia-obsessed were why he pitched up at a black-tie dinner at the White House in his salaryman suit, and whether Lang Lang, a Chinese pianist who performed at the event, was being deliberately offensive by playing a tune evoking Chinese heroism in the Korean war, when its soldiers were trying to kill Americans. Mr Hu himself lacks the spontaneity to put his foot in it, though the Chinese press did its bit to make it look as if he had by censoring some bland remarks about China's having "a lot of work to do" on human rights.

The visit was not all pomp and symbol. The joint statement it yielded skirted some thorny disputes, such as the value of China's currency. Yet even some of its worthy but empty pieties mattered to China, which liked the repeated references to "mutual respect" in areas such as the two countries' discussion of human rights. America liked China's promises on intensified military contacts and on public-procurement policies. And it was pleased to evoke a rare Chinese criticism of North Korea, however mild.

If the past is any guide, however, each side will soon feel the other is flouting the statement. By "respect", China probably means refraining from, for example, calling for the freedom of Liu Xiaobo, the jailed dissident who won last year's Nobel peace prize, or protesting at the vindictive detention of his wife. China would also like it to mean abiding by the "Three Communiques" (from 1972, 1978 and 1982) that are supposed to govern bilateral relations and that call for a steady reduction in American arms sales to Taiwan. But the nature of American politics, and, in the case of arming Taiwan, American law, gives American presidents little practical option but to aggravate China on these issues.

A further difficulty is the growing complexity of foreign-policymaking in China itself. One reason America is so keen on military dialogue, for example, is that the army is playing a bigger role. High-level talks were suspended for a year in protest at sales of weapons to Taiwan, but were resumed just ahead of Mr Hu's trip when Robert Gates, the secretary of defence, was in Beijing. China's army is planning to add impressive new capabilities-an aircraft-carrier, a "carrier-killing" anti-ship ballistic missile, and a "stealth" jet fighter-without offering much clarity about its strategic intentions. It tested the J-20 stealth plane during Mr Gates's visit, though Mr Hu, who heads the Communist Party's military commission, displayed (perhaps feigned) ignorance about the test. This did not build confidence of greater transparency.

Similarly, China, at America's insistence, expressed "concern" about North Korea's claimed programmes to enrich uranium. But the Communist Party's North Korea policy remains based on propping up its irksome little ally. To that end it fosters Chinese investment there, which makes it even harder to act tough. And China's promise not to "link its innovation policies to the provision of government procurement preferences", implies ditching its "indigenous innovation" policy that discriminates against foreign firms. That will run into opposition from the interests that lobbied for the policy in the first place.

Blind faith

Even if there is good reason to expect China and America to start quarrelling again soon, they have at least tried to reassure each other over tenets of bilateral faith each has felt to be shaken. Angst as well as hope lies in the recognition in Barack Obama's state-of-the-union address this week that America is faced with a "Sputnik moment" as China rises. Yet the joint statement reiterated America's welcome for "a strong, prosperous and successful China that plays a greater role in world affairs". And for all the effort China's armed forces are devoting to limiting America's freedom of action in the Western Pacific, China reciprocated its endorsement of "the United States as an Asia-Pacific nation that contributes to peace, stability and prosperity in the region".

Each side is bound to doubt the other's sincerity; the global emergence of a power as big as China was never going to be smooth. The best that can be hoped is that the inevitable tensions are contained. And with a presidential election in America next year, as well as an awkward leadership transition in the Chinese Communist Party, each side has an interest in stopping their differences from becoming irreconcilable. A third honeymoon, however, seems too much to hope for.

Economist.com/blogs/banyan

Seeking a journalist to cover China

Jan 27th 2011 | from PRINT EDITION

The Economist is looking for a journalist to help with our growing coverage of China. Salary negotiable. Applicants should have a good knowledge of China-including its regions, politics and culture. A command of standard Chinese is essential. Applicants should submit a test piece of no more than 500 words that they think could appear in the newspaper, two further ideas for articles and a CV. Please send them, by February 21st, to The Foreign Editor, The Economist, 25 St James's Street, London, SW1A 1 HG, or chinajob@economist.com.

Protest in Egypt

Another Arab regime under threat

Jan 27th 2011 | *CAIRO* | from PRINT EDITION

President Hosni Mubarak (below) faces unprecedented protest on the street. But it may not make him go-yet



SOME Egyptians are jokingly calling it a Tunisami. The wave of popular protest sweeping the Arab world certainly draws inspiration from Tunisia. As yet, none of the youthful movements clamouring for political freedom and economic relief in such strongman states as Algeria, Jordan, Libya, Sudan and Yemen has come close to reaching the dictator-toppling momentum of their Tunisian counterpart. But for one day at least, Egypt, the most populous and influential Arab country, did look as if it had been hit by a Tunisia-tinted political tidal wave.

A loose coalition of more than a dozen small parties and activist groups had issued a Facebook call for a "day of rage" to coincide with Police Day on January 25th, recently declared a national holiday. Some 80,000 Egyptian web-surfers signed up, pledging to march on the streets to voice demands for reform. Their enthusiasm reflected Tunisia's influence but was also built on a rising tide of local alienation from the government. Yet few expected that number to turn up, and fewer expected Egypt's harsh, experienced and effective riot police to let them get very far.

To general surprise, the nationwide protest turned out to be the largest act of civil disobedience in the 30 years of President Hosni Mubarak's rule, with simultaneous marches erupting in more than a dozen towns across the country. As many as 30,000 people demonstrated in both the port city of Alexandria and the capital, Cairo, unprecedented numbers for Egypt, where public apathy and fear of police brutality run justifiably deep.

Vague, competing lists of demands had been issued by different organisers, including for an end to the emergency laws enforced throughout Mr Mubarak's tenure, the firing of his interior minister, and a higher minimum wage. But, emboldened by numbers, the marchers refocused their slogans. "Down with Mubarak!" "The people demand the fall of the regime!" and a simple "Go!" were the commonest chants. In many cities portraits of the president and his son Gamal, often tipped as a successor to his 82-year-old father, were ripped down or defaced.

Encouraged by a relatively lenient initial police response, despite the presence of ranks of uniformed riot police backed up by water cannons and thousands of plain-clothes thugs, demonstrators in Cairo managed by late afternoon to seize control of Tahrir Square, a broad traffic junction in the city centre. But late in the evening a police charge with truncheons, accompanied by barrages of tear-gas, volleys of birdshot, plastic bullets and percussion rounds, cleared the square. In the city of Suez plastic bullets fired at close range killed three protesters. A policeman died in Cairo after being hit on the head by a rock.



Shocked by the scale of protest, police toughened and broadened their response. The minister of interior, Habib al-Adli, issued a stern warning that no further street gatherings of any kind would be tolerated. Protests in Cairo on the following day drew far smaller crowds that were heavily attacked. But violent clashes continued in Suez, where a government building was torched and another protester killed, and in Alexandria.

The authorities clamped down on social networking websites, restricting the use of twitter, which had been widely used to gather protesters and disseminate news and photographs. Cellphone reception was blocked in much of central Cairo. The number of those arrested, many of whom were reportedly beaten in custody, probably exceeded 1,000 nationwide.

Whether the protesters can keep up a level of pressure remains to be seen. Ominously for Egypt's government, financial markets have responded dramatically, with Egypt's stock index dipping by 6% on January 26th, as foreign investors fled.

Public sympathy seems to lie mostly with the protesters. Many Egyptians have called for more nationwide demonstrations after Friday prayers. Students are expected to stir campus protests. Opposition parties have made more explicit demands for reforms, including the dissolution of the parliament installed in December after elections widely condemned as fraudulent, the holding of new elections, and a declaration from Mr Mubarak that neither he nor his son will run for president in the elections scheduled for September.

Mr Mubarak has so far been stunningly silent. The state media have ignored the protests, reporting instead on the gifts of flowers and chocolates that citizens were said to have given to police to honour their holiday. The government issued a vague statement blaming "banned groups", a code-word for the Muslim Brotherhood, for fomenting unrest.

Yet the Brotherhood, which is Egypt's largest and most disciplined opposition group, was notably absent from the protests. Having been warned of a severe crackdown if it officially endorsed them, the group only belatedly gave permission for its members to join as individuals.

Egypt's government is in a bind. Its security forces, better equipped and trained than Tunisia's, can probably crush the protests. But the government is already under pressure from Western allies to enact democratic reforms, and risks being further isolated internationally. Hillary Clinton, the American secretary of state, pointedly urged across-the-board reform.

Should Mr Mubarak begin to concede to the protesters' demands, however, he may be perceived as weak-and that might encourage more to be made. Having packed his parliament with his own party and all but shut out the opposition, he has in effect blocked what might have been a useful conduit for artful concessions.

On January 27th Mohamed ElBaradei, a former head of the UN's nuclear watchdog, was due to return to Egypt, offering himself as a prospective leader of the opposition and, by implication, as a candidate for the presidency. It will be hard for Mr Mubarak to stop him from running.

The president is not as deeply loathed as Tunisia's fallen dictator, Zine el-Abidine Ben Ali. Nor does he have the same reputation for thievery. But his people, and especially the young, suffer the same ill-defined anguish at having long been humiliated by an unresponsive, unaccountable and cynically manipulative regime. Their anger will not evaporate soon.

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Tunisia's upheaval

No one is really in charge

Jan 27th 2011 | *TUNIS* | from PRINT EDITION

The revolution is still in flux



General Ammar to the rescue?

AFTER a week of jubilation, life for many Tunisians is slowly getting back to normal. Most shops and markets have reopened. Bread and milk are back on the shelves. Schools and universities are slowly reopening. Most Tunisians seem

eager to return to work and to "relaunch the country," as they often put it. But no one knows who, in the next few weeks or so, is going to end up in charge. Some want a clean break with the past. Others prefer continuity, without the greedy excesses of Zine el-Abidine Ben Ali, Tunisia's dictator, recently ousted after 23 years in power.

In Tunis basic services are functioning again after a week of disruption, though a curfew is still in force after 8pm. But in other parts of the country, especially the central region, the epicentre of the uprising that led to Mr Ben Ali's fall, it will take longer for normality to return. Looters are still active and tension persists, with an uneasy stand-off between angry activists and tainted figures of authority who have been hanging grimly on.

The interim government that is meant to restore order and prepare for presidential elections within six months is fragile. Most tourist hotels are empty. Exports, especially of textile and automotive supplies, have been badly hit. If workers at factories and farms find they have lost wages because of the disruptions, then the grievances that fuelled the uprising in the first place could resurface.

Already the main trade-union federation, which has emerged as an influential political force in the absence of strong opposition parties, has called for strikes and wage increases in certain sectors. But many businessmen are afraid that the union, whose representatives quit the unity government after only a day, is exploiting the febrile situation. General strikes may be called in several cities.

A lot of Tunisians were annoyed that senior ministers from Mr Ben Ali's Constitutional Democratic Rally (known by its French initials, RCD) still had top jobs in the new government. Most prominent were the prime minister, Mohammed Ghannouchi, who has been a cabinet minister ever since Mr Ben Ali seized power in a bloodless coup in 1987, and the ministers of finance and interior. As a result, five new ministers walked out of the unity government. The finance and interior ministers are now expected to be fired-but it is unclear whether that will satisfy those who feel the RCD should be completely removed from power. Mr Ghannouchi, a technocrat who is said to be untainted by the corruption rife among the Mr Ben Ali's relatives, further infuriated many Tunisians by admitting that he had spoken to the former president by telephone since his flight to Saudi Arabia.

"This government is an insult to the revolution," thunders a senior civil servant at the Central Bank of Tunisia. "It is as if we didn't rebel. They are taking advantage of a political vacuum to consolidate their position and seize power." A widely held view is that Mr Ghannouchi and other RCD ministers must at least have winked at the corruption surrounding Mr Ben Ali.

The central provinces of Sidi Bouzid and Kasserine witnessed some of the bloodiest clashes between civilians and the police, who are said to have used snipers to kill demonstrators. Protestors from those areas have staged a sit-in in the old casbah of Tunis, near the seat of government. They have already clashed twice with the police, who used tear-gas to control them. This prompted the army chief, General Rachid Ammar, who is credited with persuading Mr Ben Ali to flee, to parley with the protesters. "The army is the guarantor of the revolution," he told them.

The general's intervention has heightened his popularity and fuelled speculation that he could head a new government of technocrats. "He is the only person with the credibility among the people to carry out this transition," says a businessman exasperated by the current government's apparent inability to explain its aims. "We need a clean break." But human-rights people are much warier of calls to put the general in charge, even of a civilian government. The idea reminds them of how Mr Ben Ali, who rose to power through the army and the intelligence services, was originally seen as a strongman capable of carrying out a transition to democracy.

Yet other Tunisians are happier to endorse the current government's mission first of all to restore order as soon as possible. Some say this is a view espoused mainly by the prosperous types living in comfortable villas in Tunis's northern suburbs. Such people fear social unrest and populist measures that could threaten their economic interests and their physical security.

But many ordinary Tunisians share the fear that, if radicals took over, the far left or Islamists could come to power. Ettajdid, a former Marxist party now run by social democrats that is represented in the new government, echoed this point in its first congress since Mr Ben Ali's fall. "We must protect the revolution but we must also protect our gains in women's rights and secularism," said Ahmed Brahim, one of its new ministers, to loud applause.

Blazing cedars

Jan 27th 2011 | *CAIRO* | from PRINT EDITION

Political shambles in Lebanon: no need to worry

ANYWHERE else one might expect bank runs or a stockmarket crash. But in Lebanon the toppling of a Western-backed coalition that recorded five years of solid economic growth and its replacement with a rival alliance, underpinned by an Iranian-funded outfit that America terms terrorist, has caused no such hiccups. Instead, the installation of a new prime minister, just two weeks after his predecessor's government fell, brought mostly relief. As Lebanese know all too well, it could have been so much worse.

Not everyone is so sanguine, however. Under a complex sectarian system, the president is a Maronite Christian, the prime minister is a Sunni Muslim and the speaker of parliament is a Shia. The outgoing prime minister, Saad Hariri, enjoyed overwhelming Sunni support. His ousting has sparked heated protests in predominantly Sunni areas.

His successor is Najib Mikati, a telecoms billionaire and competent, neutral administrator. But many Sunni accuse him of betrayal and dislike his close ties to Syria. They are angry, too, that parliamentarians loyal to the Druze chieftain, Walid Jumblatt, shifted sides, stripping Mr Hariri of his narrow majority. Mr Hariri's opponents, led by the Shia party-cum-militia, Hizbullah, now have 68 of the parliament's 128 seats. Hardline Christian parties backing Mr Hariri are equally dismayed.

So, too, are his main foreign backers, America, France and Saudi Arabia. They had supported his faction since the 2005 cedar revolution, which was fuelled by the assassination of Mr Hariri's father, Rafik, a five-times prime minister. At the time that seemed to have ended a long period of dominance by Syria and its tough local allies. America is now likely to chop its aid to the Lebanese army, which it had bolstered as a potential foil to Hizbullah.

Israelis are discomfited by the Shia faction's emergence as Lebanon's kingmaker. Israel fought a bruising war against the Shia militia in 2006, and now faces its arsenal of some 50,000 rockets. So Hizbullah's virtual control of the Lebanese state could be seen as giving Israel licence to smash its northern neighbour in a future conflict that many see as inevitable.

The latest swirl in Lebanon's politics has cheered Hizbullah's Shia constituents and its Syrian and Iranian backers. But not only them. Some powerful Lebanese Christian groups have long chafed at what they see as the Hariri family's overweening economic and political influence. Many other Lebanese are weary of the years when Hizbullah and its allies, using street protests, propaganda and occasional violence, systematically undermined Mr Hariri's efforts to rule.

Hizbullah's stroppiness is based partly on its insistence on maintaining its independent "resistance" militia. It also rejects a UN-mandated international tribunal investigating the murder of Rafik Hariri and a spree of attacks targeting his political allies that killed 60 others. The tribunal, based in the Netherlands, will soon issue indictments. These are widely expected to finger Hizbullah operatives, suggesting that the party was engaged in a Mafia-style campaign of physical elimination against its rivals. Those crimes and attempts to subvert justice dismay many in Lebanon. But many are willing to bury the issue in the interest of peace.

Mr Mikati, the new prime minister, and Hizbullah's charismatic head, Hassan Nasrallah, have both spoken of the need for reconciliation. Mr Hariri has called on his supporters to refrain from violence. Steady financial markets suggest the new government may preserve stability.

Yet the Hizbullah-led opposition's rise to power augurs ill for the longer term, and not only because of the increased danger of conflict with Israel. As a Lebanese blogger commented, "If there is one lesson our country learned from Hizbullah, it's that violence works. All the money, soft power and so-called influence is rubbish when it comes to raw boots on the ground and heavy weaponry."

Demonstrations in Yemen

Catching on

Jan 27th 2011 | *SANA'A* | from PRINT EDITION

Yemen's brittle system rattles



He says his president should go

BUOYED by the news from Tunisia, Yemen's opposition has been demonstrating too. In the capital, Sana'a, placard-wielding protesters called for removal of the long-serving president, Ali Abdullah Saleh. Internal dissent is nothing new in Yemen. But the sight of an estimated 10,000 demonstrators openly demanding the head of state's resignation is rare.

On Jan 23rd Mr Saleh's security force had arrested Tawakul Karman, a shrewd human-rights activist. That provoked an international outcry and stirred a series of protests in both Sana'a and the former capital, Taiz.

Mr Saleh seems rattled. He freed Ms Karman and a number of her fellow protesters. In an unusually apologetic speech he awarded pay rises to civil servants and soldiers and announced he was cuttting income taxes by half. That will do little for the 35% of the workforce that is jobless, but it may keep his forces loyal, at least for a while.

On the streets of Sana'a many Yemenis were still devoting the best part of their days to chewing qat, a mildly euphoria-inducing leaf, rather than striving to topple Mr Saleh's beleaguered government, which faces tribal unrest in the north, separatism in the south and al-Qaeda here and there.

"Yemen is not Tunisia", Mr Saleh insisted. But a watershed in his capital may have been crossed.

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The African Union

Short of cash and teeth

Africa's paramount body has improved but it is still weak



Ping says he can't smell the pong

IT HAD been a long day for Jean Ping. The man who runs the African Union (AU) spent the morning dealing with events in Tunisia. After lunch he was on the telephone to Kenya's prime minister, Raila Odinga, who had been in Cote d'Ivoire as the AU's negotiator, trying to persuade its strongman to step down. Now, in the evening, he was giving a pep talk to his staff ahead of the AU's annual summit, when the leaders of 53 African countries come to the outfit's headquarters in Ethiopia's capital, Addis Ababa, to set an "African agenda" for the year ahead. Mr Ping conceded that staff morale was low but urged his colleagues to work harder to "integrate Africa into the world economy" and "strengthen its voice on the global stage".

The AU is gaining weight. Every African country belongs to it, bar Morocco, which has quarrelled with many of the body's members over the disputed Western Sahara. Attitudes in the AU have changed since its birth in 2002. Its predecessor, the Organisation of African Unity, generally turned a blind eye to dictatorship and tyranny; the new AU is more rigorous. It says it is determined to promote openness and democracy. Its main mission is to bring about "peace and security". Its forces have militarily intervened to impose order in Burundi and reverse a coup in the Comoro islands. The body oversees 8,000 troops fighting jihadists in Somalia. Another 8,000 are serving in a joint AU-UN force in Sudan's western region, Darfur.

The AU has also exerted political pressure to overturn coups in Togo and Mauritania. It has suspended Niger, Madagascar and Cote d'Ivoire for undemocratic behaviour. Eritrea suspended itself after the AU told it not to help the jihadists in Somalia. The AU wants to try a former Chadian dictator, Hissene Habre, for mass murder. Mr Ping, a former long-serving foreign minister of Gabon, whose father was a trader originally from China, is diplomatic in his public statements but says he feels free to condemn coups and state violence against protesters, as in Tunisia, without feeling obliged first to consult Africa's leaders.

The AU's rhetoric has become more pragmatic. Muammar Qaddafi's romantic vision of a United States of Africa run by princes and chiefs is rarely mentioned. The lingo of Marxist liberation has gone. The talk now is of economic integration. The AU's pronouncements are more down-to-earth than those of its predecessor.

While an African president ceremonially chairs the body for a year, Mr Ping, technically head of the AU's commission (ie, its permanent secretariat), has eight permanent commissioners (half of them women). His economic-affairs man, Maxwell Mkwezalamba, a Malawian, points to progress towards creating customs unions and in persuading businessmen to help make policy. The AU has won a voice at meetings of the G20 and has played a part in getting the World Bank, the IMF and the WTO to take Africa's concerns more seriously.

But the body still lacks oomph. Many of the AU's 400 staff seem listless. "Even ignoring work ethic and capacity, we grind slowly," admits one of them. The best tend to leave if a better offer arises: an AU job is worth much less than a UN package.

And the AU still exudes a lot of hot air. Its vaunted parliament, banks and judiciary hardly exist. A peer-review mechanism intended to improve governance in Africa has lost momentum. The AU's instinct is still to wring hands, as it has done over Tunisia, rather than resolve issues. Senegal blithely refuses to hand over Mr Habre; the AU generally opposes requests to send mass-murderers to the International Criminal Court at The Hague, though many African governments have signed up to it. Laurent Gbagbo, who lost a presidential election in Cote d'Ivoire in November but is refusing to step down, has so far happily thumbed his nose at Mr Odinga, though there has been vague talk of using AU force to squeeze him out. The AU's demand for $70 billion in compensation for the ravages of climate change from northern countries has gone nowhere.

A big problem is money. The combined size of the economies of all the AU's countries is still on a par with the Netherlands' at an official exchange rate. This year's AU budget is $260m, compared with the $1.8 billion the UN spends just on its contribution to the Darfur peacekeeping mission. And African countries pay for only about 40% of the AU's budget. Algeria, Egypt, Libya, Nigeria and South Africa give $15m each. Malawi, whose president, Bingu wa Mutharika, holds the AU's annual chair, puts in $160,000; some countries pay as little as $20,000. China, the European Union and America pay for the rest. A new AU headquarters, to be built by the Chinese, is due to open next year beside the existing one. African stinginess, sighs Mr Ping, "does not do honour to the African cause".

The AU's credibility was hurt when Mr Qaddafi was elected chairman for 2009. This year Equatorial Guinea's Teodoro Obiang, one of Africa's more venal leaders, looks likely to get the job. Mr Ping refuses to be drawn on the subject. "We have our rules and we have to follow them," he says, perhaps with a wince.

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The jargon of aid

Anyone here speak NGOish?

Jan 27th 2011 | *NAIROBI* | from PRINT EDITION

Africa's newest country already knows the gobbledegook of aid

THE emerging new country of South Sudan, which has voted overwhelmingly for secession from the north, has already become a leading nation of "the workshop": not a place where hard work gets done under duress but where the language of aid is taking hold even among the natives. "I feel like a stakeholder now," exclaimed a woman of the Dinka tribe, the region's most prolific.

All the favourite words of NGO-speak are now aired in the makeshift corridors and canteens of Juba, the fledgling capital. Top of the list are "empowerment", "capacity-building" and "stakeholder" (not someone actually carrying a stake). "Governance", "civil society", "facilitators" and "disadvantaged" follow fast behind. British NGOs have a fondness for "focal groups". Americans like anything that leads to "inclusion", especially of the "excluded".

Such terms' joy is that they are nice and woolly, hard to define and harder still to contradict: who could possibly turn down the chance to enhance development practitioners' facilitation skills for the capacity-building of gender-disadvantaged women?

NGO-speak is particularly cherished and fostered in the grant applications that smaller NGOs have to file to the bigger ones. Using the right word is all. "If you don't know the buzz words," says an NGO director, "you hardly have a chance to apply for funds."

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Suicide bombs in Moscow

Terror at the airport

Jan 27th 2011 | *MOSCOW* | from PRINT EDITION

Another suicide bomb reflects the Kremlin's difficulties with the north Caucasus



HALF past four in the afternoon is peak time for international arrivals at Domodedovo, Moscow's busiest and most efficient airport, favoured by foreign airlines. Several European flights land then. As passengers leave the baggage area, they are greeted by taxi touts. On January 24th they were met by a suicide bomb that killed 35 people and injured more than 100. It was designed to cause maximum damage and to kill foreigners and Russians alike.

This was the deadliest attack on any international airport. Nobody has claimed responsibility, but the assumption is that it is the work of Islamist fundamentalists, related to Russia's troubled north Caucasus-though Dmitry Medvedev, Russia's president, and Vladimir Putin, its prime minister were careful not to say so publicly.

The details remain hazy, but a male suicide bomber seems to have entered the airport building from the car park, avoiding metal detectors on his way to the arrivals area. A source close to the investigation says CCTV picked up the bomber entering the building just over an hour before the explosion. Intriguingly, the footage suggests he did not look north Caucasian.

The attack was condemned around the world yet greeted with an air of resignation in Moscow, partly because suicide bombings have become tragically common. Last March two female suicide bombers blew themselves up on the Moscow metro, killing 40 people.

Mr Medvedev quickly blamed the airport's managers and the transport police for security breaches. He sacked a few police officers and said that airport managers should be held responsible. "People were allowed to walk in from anywhere. The entrance restrictions were partial at best," he complained. An airport official said it was the police, not airport managers, who were responsible for security in the zone where the bomb went off.

Russia's police are often more preoccupied with extracting bribes from migrant workers than with security. In 2004 two suicide bombers boarded two separate planes at Domodedovo and managed to kill 88 people after being briefly detained and then released by the airport police.

No busy airport can check everybody walking into the building. In most countries' airports, areas designed for the general public require free access. Mr Medvedev's order to heighten checks at Domodedovo forced all visitors to walk through metal detectors and led to overcrowding, a security risk in itself. A suicide bomber detonating his device in the crowd waiting to pass through a metal detector would claim many lives. This is just what happened in 2003, when two female bombers blew themselves up before metal detectors at a rock concert, killing 16 people.

The main job of thwarting terrorism ought to belong to the intelligence services and police, who must track down explosives and identify terrorists before they can stage attacks. Reports in the Russian media suggest that the latest bombing was not unexpected. A few weeks ago a female terrorist detonated an explosive and killed herself in a safe house. One accomplice was arrested but others got away.

No security service can prevent every incident. But the frequency of terrorist attacks in Russia raises questions about the professionalism of counter-terrorism in Russia. The security services have a better record of engaging in business disputes and hassling Kremlin opponents than of infiltrating terrorist networks to stop attacks. Over the past decade the FSB (successor to the KGB) has acquired enormous power and influence, but this has made it less accountable. None of the terrorist attacks under the presidency of Mr Putin, himself a former KGB officer, led to the resignation of federal security chiefs. Neither Alexander Bortnikov, the head of the FSB, nor Rashid Nurgaliev, the interior minister, made a public appearance on the day of the attack. Russian state-television channels also decided not to interrupt their daily schedules with live broadcasts.

Terrorism in Russia has a global aspect, but it is also related to the Kremlin's policies in the mainly Muslim north Caucasus. While Chechnya has been brutally pacified, the region is in a simmering civil war. Republics such as Dagestan and Ingushetia are formally part of the Russian federation, but have long ceased to be treated as such either by Moscow or by their own inhabitants. Corruption and the failure of everyday politics have made governance in the north Caucasus completely ineffective, according to Ekaterina Sokiryanskaya of Memorial, a human-rights group. The brutality and impunity of Russian security services in the north Caucasus and the indiscriminate persecution of Muslims have served only to push the locals into the hands of Islamist extremists.

Ms Sokiryanskaya suggests that Russia is now caught up in an escalating spiral of inter-ethnic violence. The growing antagonism of young north Caucasians towards the government and to Russians in general is matched by the hatred and chauvinism on the Russian side towards the north Caucasus. The recent murder of an ethnic Russian football fan in Moscow by north Caucasians sparked violent riots by ultranationalists and skinheads near the Kremlin. "Russia for the Russians" was the mildest of the rioters' slogans. Mr Putin met the protesters and laid flowers on the fan's grave. Russian prosecutors are reluctant to investigate ethnic attacks on Muslims from the Caucasus, which happen a lot in big Russian cities.

Mr Putin has also proposed tightening registration rules for migrant workers, even those from inside Russia-a measure aimed at north Caucasians. The nationalist riots and the bomb in Domodedovo are just two links in the same chain, says Ms Sokiryanskaya. The real danger of such violence is that, instead of prompting the Kremlin to review its policies in the north Caucasus and to hold the security services properly to account, this week's airport bombing may increase already fraught ethnic tensions.

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Ireland's government

Biffo biffed

Jan 27th 2011 | *DUBLIN* | from PRINT EDITION

One prime minister departs, but his successor may not find life much easier



The words say it all

ALL political lives end in failure, Enoch Powell, a British politician, once declared. Few people illustrate his point as well as Brian Cowen, Ireland's taoiseach (prime minister), whose political career is likely to end after a general election that is likely to be held on February 25th. He has failed in dramatic fashion.

From being his Fianna Fail party's greatest asset when he succeeded Bertie Ahern as taoiseach in 2008, Mr Cowen has now become its biggest liability. As finance minister in 2004-08, he failed to control a rambunctious property boom. And as prime minister he failed to contain the subsequent bust, culminating last November in an ignominious bail-out by the European Union and IMF.

Worse, Mr Cowen has lost control of both his government and his party. On January 22nd he stepped down as leader of Fianna Fail, which has ruled in coalition with the Greens since 2007. His resignation came just four days after he had won a vote of confidence in his leadership, and a few weeks before an expected general election. Then he suddenly found himself leading a minority government when the Greens stormed out. Their beef was Mr Cowen's ham-fisted attempt to win pre-election party advantage by shuffling out a clutch of ministers who were planning to retire from parliament. The Greens vetoed the move. Even some of Mr Cowen's party colleagues were dismayed by this cynical attempt to bolster Fianna Fail's diminishing electoral prospects.

Mr Cowen is likely to call the general election as soon as parliament passes legislation to implement the tough austerity measures in December's budget, which are required by the terms of the bail-out from the EU and the IMF. By the middle of the week, fears about the passage of some of the financial measures had eased after three independents on whom the government relies for its majority negotiated last-minute changes as the price of their support.

Even as the Fianna Fail minority government struggled on, its 72 deputies met on January 26th to elect a new leader. Micheal Martin, who quit as foreign minister on January 18th after his failed challenge to Mr Cowen's leadership, emerged as the winner. Brian Lenihan, the finance minister and once the favourite to succeed, was damaged by his handling of the EU/IMF bail-out, and by claims of duplicity from some backbenchers who said that, even as he had publicly backed Mr Cowen, he had privately encouraged dissent.

Mr Martin, despite wide-ranging ministerial experience, cannot point to much in the way of achievement in office. But his biggest task will be to ensure that Fianna Fail avoids electoral meltdown and survives as a serious political force. In an opinion poll in December the party, which has been in power for most of the time since Irish independence in 1922, scored only 17%. Some recent polls have given it even less. Since Fianna Fail took 42% of the vote in 2007, figures like these could see the party lose more than half its seats on February 25th.

Not surprisingly, Fine Gael and Labour, the opposition parties of the centre-right and centre-left, are now odds-on favourites to form the next government with a huge parliamentary majority. But their room for manoeuvre will be constrained by the terms of the EU/IMF agreement, which both parties have suggested they will try to renegotiate.

The new government's biggest difficulty, argues Garret FitzGerald, a former taoiseach who led a Fine Gael/Labour coalition in the 1980s, will lie in agreeing on a balance between spending cuts and tax rises. A similar problem of fiscal adjustment bedevilled Mr FitzGerald's coalition, contributing to its break-up in 1987. The government may face a much depleted Fianna Fail under Mr Martin. But past experience has shown Fianna Fail to be a ruthless opposition-and now it may be bolstered by a newly resurgent Sinn Fein. The Fine Gael leader and probable next taoiseach, Enda Kenny, could have almost as rough a time as Mr Cowen.

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France and the G20

Uncharacteristic modesty

Jan 27th 2011 | *PARIS* | from PRINT EDITION

The French president's more limited plans for running the G20 club

WHEN Nicolas Sarkozy dropped in on the World Economic Forum in Davos last year, he called for "a new Bretton Woods", an overhaul of the international monetary system and a "moralisation" of capitalism. Now that the French president is in charge, until November, of the G20 and G8 clubs, a dose of realism has set in. Incremental improvements rather than big-picture vision, uncharacteristic modesty rather than bravado: with his eyes on the 2012 presidential election, Mr Sarkozy hopes to revive his action-man reputation but without raising domestic expectations absurdly high.

Under the slogan "New World, New Ideas", Mr Sarkozy set out his G20 plans this week. Some, such as the idea of enforcing minimum global standards of social protection, are pipe dreams. Others will run into deep hostility from other G20 members, such as a tax on financial transactions to pay for aid and measures to mitigate climate change in the poor world. Although he claims to have backing for this idea from Germany and Japan, even Mr Sarkozy admitted this week that it faces "big enemies".

Elsewhere Mr Sarkozy's grand ambitions have been tempered somewhat. Consider the first of the two big ideas that he outlined this week: easing global imbalances and currency tensions, and curbing volatility in commodity markets. In the past Mr Sarkozy has talked of creating an alternative reserve currency to the dollar, which has irritated the Americans, or letting the yuan rise, which has irked the Chinese. This week, Mr Sarkozy said that "France does not want to challenge the dollar" and did not even mention the yuan's valuation.

Instead he talked of "internationalising new currencies" by, for instance, considering including the yuan in the IMF's Special Drawing Right (SDR), a reserve asset made up of a basket of currencies. He hopes for progress on measuring global imbalances and on agreeing to a code of conduct on capital flows. This does not mean the French have abandoned hopes of big systemic changes, but they are now more realistic about what they can achieve. "He's not so mad as to think that we can recreate Bretton Woods in 48 hours in France," says somebody who is close to the president.

Mr Sarkozy's method has changed, too: less megaphone politics, more diplomatic cajoling. He has even come up with the idea of subcontracting prickly subjects to others, to try to get them to "own" any change. Thus he has persuaded China's Hu Jintao to host a seminar in March on reforming the international monetary order-"hugely symbolic," claims one triumphant official. France's hope of including the yuan in the SDR, say officials, is an indirect ploy to find ways for the Chinese currency to rise. Nobody expects the yuan to be in the SDR basket by the end of 2011; but getting the idea discussed is progress of a sort. "If you say you can't do everything in the G20 in one year," says an official, "you'll never do anything ever."

Whether any of this, even if achieved, will translate into popularity gains for Mr Sarkozy at home is quite another matter. His poll numbers are near record lows. Unlike France's 2008 presidency of the European Union, when his globe-trotting

and war-mediating boosted his popularity, the G20 issues are technical and hard to explain to voters. And any hopes he has of drawing a contrast with the narrow navel-gazing of the opposition Socialists by striding the globe could ultimately be in vain. For, with each new flattering poll, the chances are rising that the Socialist opponent he will face in 2012 will be Dominique Strauss-Kahn-the head of the IMF.

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Controversial Turkish television

Magnificent no more

Jan 27th 2011 | *ISTANBUL* | from PRINT EDITION

A television series feeds tensions between secular and Islamist Turks



Sullying Sultan Suleiman

SULTAN Suleiman the Magnificent, who earned his moniker for taking the Ottoman empire to the apogee of its glory in the mid-16th century, is widely regarded as sacred in Turkey. No matter that he had his own son murdered, among several dastardly deeds. Modern Turks like to boast of his armies reaching the gates of Vienna and to refer to him as the "lawgiver". A British historian, Jason Goodwin, writes that Suleiman was "majestic enough to stock his court with an unusual number of buffoons, dwarves, mutes, astrologers, and silent janissaries" and that he ruled so long "that he became something of an Ottoman Queen Victoria."

In recent weeks Suleiman has been at the centre of a new row that pits secular Turks against Muslim conservatives. The cause was a televised drama series, replete with scenes from the royal baths and the harem, which chronicled Suleiman's military and sexual exploits. Pious Turks were incensed by scenes of Suleiman lusting over his most coveted queen, Roxelana, and drinking goblets of wine.

Bulent Arinc, deputy prime minister in the mildly Islamist Justice and Development (AK) government, called for the series to be scrapped. "It shows him in his harem, fond of drinking and in certain scenes that I cannot find words to express," Mr Arinc complained. Halit Ergenc, who played Suleiman, was inundated with hate mail and death threats.

The state media watchdog, RTUK, says that it has received a record number of complaints about the series. It even issued a warning to the channel responsible, Show TV, that it was clashing with the "national and moral values of our society". Members of the overtly Islamist Saadet party, chanting *Allahu akbar* ("Allah is great"), staged protests outside Show TV's

headquarters in Istanbul. Yet, as Meral Okay, one of the scriptwriters, commented, "the children of the Sultan were not conceived by pollination...he did have a sex life and a family." At least the controversy boosted the show's ratings to record heights.

Fervent Islamists tout the Ottomans as the antithesis of Ataturk, who abolished both the Sultan and the caliphate. Moreover, in his last years Suleiman turned religious. Mr Goodwin writes that Suleiman "dined off earthenware platters, and fostered the triumph of Orthodox Islam...but when the Austrian ambassador took leave...it was scarcely a living being he described but a metaphor of empire rotting and majestic, fat, made up, and suffering from an ulcerous leg."

Albania and Kosovo

A bad week

Jan 27th 2011 | from PRINT EDITION

Criminal accusations and democracy protests hurt Albanians' good name



WHAT a miserable few days for Albanians. In Kosovo their leaders stand accused of criminality on a grand scale. In Albania violence erupted at an opposition rally on January 21st and three protesters were shot dead, apparently by the security forces. Sali Berisha, Albania's prime minister, accused the opposition, led by Edi Rama, mayor of Tirana, of orchestrating bands of criminals and terrorists. Mr Rama retorted that the prime minister was responsible for a bloodbath and that the interior minister was a socially dangerous worm who should be arrested.

Since Albania has formally applied for membership of the European Union and the EU has invested heavily in a police and justice mission in Kosovo, this is all deeply alarming. On January 26th Miroslav Lajcak, a former Slovak foreign minister who is now the EU's point man on Balkan affairs, met Albanian leaders in a bid to head off a new round of violence. Yet ever since an election in June 2009 which the opposition claim was rigged by Mr Berisha, normal parliamentary life has ground to a halt. As one consequence, so has Albania's progress towards the EU.

Kosovo's progress is non-existent. Its latest problems stem from a report in December by Dick Marty, a former Swiss prosecutor and politician. Drawn up for the Council of Europe, the Marty report claims that Hashim Thaci, acting prime minister of Kosovo, led a mafia network that seized violent control of the heroin trade and was linked to the kidnappings of Serbs and others in Kosovo, some of whom were then murdered in Albania for their organs in 1999. Mr Thaci says the report is full of lies and Serb propaganda.

The report has been criticised by Albanians who side with Mr Thaci on this. But it has devastated Kosovo's already bad international image. Kosovars point out that previous investigations into the organ-trafficking claims have yielded no results. But this week the Marty report was endorsed by the parliamentary assembly of the Council of Europe. The task of investigation will now pass to EULEX, the EU's police mission in Kosovo.

EULEX says that, if Mr Marty has fresh evidence, he should give it to them. He responds that the big problem would be to ensure the safety of witnesses. There is a need to ensure that justice is done, he has said, and not "mock justice".

The organ-trafficking allegations were first made in a 2008 book written by Carla Del Ponte, former chief prosecutor of the UN's Yugoslav war-crimes tribunal, and Chuck Sudetic, who worked as an investigator at the tribunal. He now says that, in its current form, EULEX cannot handle such a sensitive investigation, because it has neither an adequate witness-protection programme nor enough security for its IT systems. It also uses local translators who are susceptible to threats or pressure on their families.

As if all this were not bad enough, the *Guardian*, a British newspaper, reported alleged leaked intelligence documents from KFOR, the NATO force in Kosovo, from around 2004, claiming that Mr Thaci was one of the three biggest fish in organised crime in the region. According to the documents Xhavit Haliti, a bigwig in Kosovo's politics, was the power behind Mr Thaci. They also suggest that Mr Haliti was involved in prostitution, weapons and drugs smuggling.

Mr Haliti has been linked to the 1997 murder in Albania of Ali Uka, a journalist who criticised the Kosovo Liberation Army, in which both Mr Thaci and Mr Haliti were leading lights. The report says that Mr Uka was brutally disfigured with a bottle and a screwdriver. His roommate at the time was Mr Thaci. The *Guardian* says Mr Haliti was unavailable for comment, though he was in Strasbourg for the Council of Europe session, where he agreed that EULEX should investigate the organ-trafficking claims but said the fuss over Mr Marty's report, in which he figures, would die down. Maybe, but the damage to Albania and Kosovo has been done.

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Slovakia's prime minister

Lonely tigress

Jan 27th 2011 | *BRATISLAVA* | from PRINT EDITION

Slovakia's brainy prime minister is isolated at home and abroad


Radicova loses some fans

LAST July few people mourned when Slovakia's government, a mixture of leftists, populists and nationalists led by Robert Fico as prime minister, was ousted. Many welcomed its centre-right successor-especially an Oxford-educated sociology professor named Iveta Radicova, who took Mr Fico's place. Yet six months on, her grip is weakening and her popularity has fallen.

Her strongest suit is her determination to put an end to sleaze. Ms Radicova proudly wears shoes that she bought for euro9 ($10) while campaigning in the country's hard-up east. Her austerity goes down well with jaded voters tired of cronyism and extravagance. She has put all public procurement contracts online. That is a contrast with the cosy ways of the Fico era-and with the lumbering efforts to clean up state purchasing in the neighbouring Czech Republic.

She cares about the rule of law. She has sacked three colleagues of Stefan Harabin, the chief judge, who is said to be soft on corruption. One replacement is a campaigner for judicial openness. She proclaims fiscal responsibility and wants to restore Slovakia's reputation as "Europe's tiger".

The trouble is that her political skills may not match her vision. She is not even boss of her party, the SDKU. That job is held by Mikulas Dzurinda, a formidable former prime minister who now serves as foreign minister. Her partners in the four-party coalition are prickly. The bickering culminated in a late autumn squabble about the attorney-general's job. Amid farcical scenes (parliamentary deputies being made to vote in pairs or photograph each other's ballots), Ms Radicova threatened to resign. Few seemed particularly bothered. The choice of a new attorney-general has now been put off.

Nor has she shown much flair in foreign affairs. She earned the wrath of her fellow euro-zone leaders with a priggish refusal to contribute to the Greek bail-out. Ms Radicova says she is irked by the condoning of extravagant "social mortgages" in countries such as Spain, Portugal and Greece. But some say the government's purist free-market principles come not from Ms Radicova but from the finance minister, Ivan Miklos, the brainy mastermind of Slovakia's pro-market reforms of ten years ago.

Either way, Slovakia may find it has few friends in Brussels when it comes to tricky European Union budget negotiations later this year. Already the east Europeans are meeting a flinty response from the EU's paymasters.

Ms Radicova likes to quote her old Oxford tutor, the late Ralf Dahrendorf, who said that sociology was "critical awareness of the state of the society". But she has found that defining problems is easier than solving them.

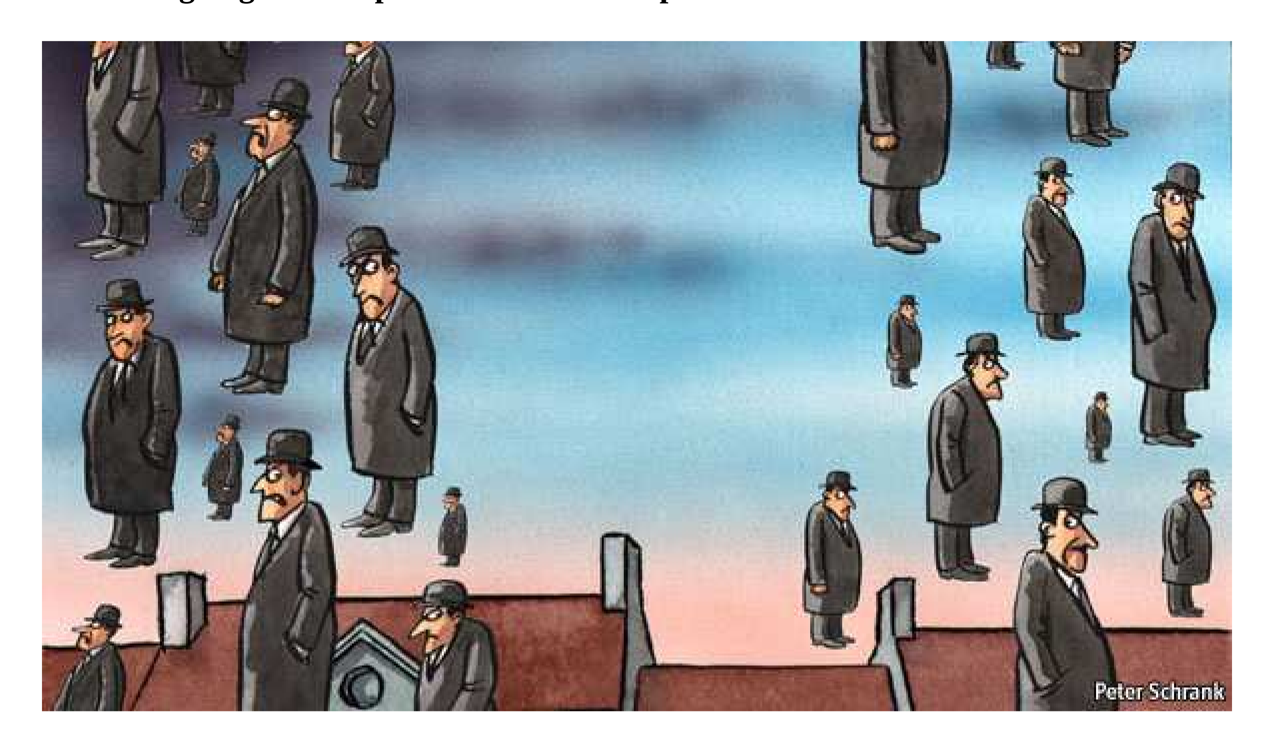
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Charlemagne

The trouble with Flanders

Jan 27th 2011 | from PRINT EDITION

Why Belgium's unending linguistic disputes matter to Europe



PITY the books of Leuven, a seat of learning since 1425. The Dutch humanist Erasmus taught at the university; Mercator, the Flemish cartographer who projected the globe, learnt maths there. But besides intellectual ferment, Leuven has known much cultural vandalism. Some manuscripts were carted to Paris when French revolutionaries closed the university. The library was set ablaze by the Germans in the first world war. It was rebuilt with international (mainly American) help, and burnt again in the second world war.

In 1968, though, it was the Belgians themselves who cleft the book collection during their language wars. To Flemish students' cries of *Walen Buiten* ("Walloons Out"), the French-speaking bit of the university was ejected. The library's 1.6m books were divided, often by the crude expedient of keeping odd-numbered tomes in Leuven and sending even-numbered ones to the new campus of Louvain-la-Neuve, in French-speaking Wallonia.

The 1968 partition divided the Catholic church (both universities are Catholic) and brought down the government. Belgium's conservative Catholic party split into Francophone and Flemish halves, followed by the liberals and the socialists. Belgian politics became tribal, with each party championing its own linguistic agenda. Over the years these rows have turned Belgium into a near-ungovernable federation, with powers devolved downwards. The Belgian state has become a hollowed-out shell, with a little-loved flag and a forlorn sovereign, Albert II, who could yet end up as the last king of the Belgians-indeed, the last Belgian.

Chronic bickering since the election in June 2010 has left a caretaker government in office for 230 days and counting, a European record. Belgium is on course to beat Iraq's 289 days without a government. Yet the country has so many layers of administration that daily life goes on. Belgian ministers made a decent fist of their country's six-month rotating presidency of the European Union in the second half of 2010. Eurocrats in Brussels are only faintly aware of living in a paralysed country. And, despite a few recent wobbles, the bond markets seem largely unconcerned about Belgium's giant public debt of close to 100% of GDP. It was only on January 23rd that Belgian students organised protest rallies to urge their country's politicians to get a move on.

The world gives little thought to Belgium. Yet it may soon have to pay more attention. As the crisis drags on, a break-up of Belgium looks less unthinkable than it was. The effects would be felt far beyond the fantasy world of Tintin and Magritte's bowler-hatted men falling from the sky.

Paradoxically the slow dissolution of Belgium, the most pro-European of countries, goes hand in hand with the (uneven) deeper integration of the EU. Belgium is facing its worst troubles just as the EU confronts the gravest challenge to the

euro. One way of looking at Belgium's divide is as a counterpart to the EU's split between a Germanic, frugal north and a subsidy-dependent Latin south. Financial markets stand ready to dump Belgian bonds at any hint of formal partition, because of uncertainty over who would repay the country's debts. But, for the moment, the euro gives all parties the luxury of intransigence. Without it, the stalemate might have triggered a run on the Belgian franc.

Today's blockage is unlike previous ones in that an avowedly separatist party, the New Flemish Alliance (N-VA), has for the first time become dominant in Flanders. Led by Bart de Wever, a charismatic bruiser, the N-VA's appeal stems precisely from popular exasperation with the messy, unsatisfying compromises of the older political groups. It wants a decisive shift of powers to Flanders, and makes little secret of its wish to see Belgium "evaporate" within the EU. Danny Pieters, the N-VA president of the Belgian Senate, says he sees no need for a Flemish army: one day Belgian forces will be part of a European one. For the N-VA, Europe is the acid that will help to dissolve Belgium.

Strangely, perhaps, this same erosion of sovereignty is seen as an antidote to violent nationalism. European integration overcame the historic enmity between France and Germany. Ireland's entry into the EU helped to end the worst of Northern Ireland's sectarian war. In the Balkans, the EU offers the balm of membership to heal the trauma of the Yugoslav wars. But is this not all romantic nonsense when Belgium, a founder of the EU as well as the host to its capital, struggles to hold together? No, says Mark Leonard, director of the European Council on Foreign Relations, a think-tank. By "taking the gun out of politics", the EU has contradictory effects. It makes it easier to draw violent groups into politics; but it also allows peaceful nationalists to act up, and voters to support them, because there is no danger of bloodshed.

Put the carving knife away

This does not mean that Belgium can dissect itself without anybody worrying. Spain and Italy would not be the only places to fret about the precedent of rich regions pulling away from poorer ones. Scottish nationalists speak of independence within Europe. Many ex-communist countries have big national minorities: think of Hungarians in Slovakia. Redraw Belgium and break the mystique of European tolerance-and one creates doubts across much of the EU's eastern swathe.

Changing national borders only rarely resolves nationalist and ethnic disputes. Where communities overlap, tolerance, minority rights, autonomy and cross-border co-operation are better democratic tools. Take Brussels. If Flanders breaks away from Belgium, could Brussels, officially bilingual but overwhelmingly Francophone, leave Flanders? Indeed, this conundrum offers the best hope that, in the end, Flemings and Walloons will live together somehow. Splitting a city is harder than breaking up a university-luckily for Belgium, and perhaps for Europe.

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The surprise fall in GDP

The lean year

Jan 27th 2011 | from PRINT EDITION

The economic recovery hasn't been derailed (yet). Even so, for many people it is unlikely to feel very buoyant



AS THE coalition government drew up its detailed plans to cut public spending last autumn, in order to deal with Britain's swollen budget deficit, the economic backdrop was unexpectedly propitious. The recovery that had started in late 2009 gathered momentum as GDP expanded by 1.1% in the second quarter of 2010 and by 0.7% in the third. Unemployment was falling and consumer-price inflation, though exceeding the official 2% target, was only a bit above 3%. George Osborne, the government's axe-wielder-in-chief (see article), appeared to be a lucky chancellor.



But a seemingly unremitting series of nasty surprises has jarred nerves. Unemployment started to rise again, returning to 2.5m and a jobless rate of 7.9%. Inflation leapt from 3.3% in the year to November to 3.7% in December-with worse to come. Mervyn King, the governor of the Bank of England, gave warning this week that inflation was likely to rise to between 4% and 5% over the next few months before falling back in 2012. Most disconcertingly, the economy actually shrank by 0.5% in the final quarter of 2010, according to figures from the Office for National Statistics on January 25th (see chart).

In fact, the recovery is likely to have stalled late last year rather than to have gone into reverse. The official number-crunchers say that, stripping out the effects of the exceptionally cold spell in December, GDP was broadly flat. Moreover, this is a preliminary estimate and past revisions have sometimes been quite large; barely perceptible growth of 0.1% in late 2009 was subsequently pushed up to 0.5%.

Yet despite the excuse of bad weather and the flakiness of the figure, it still came as a palpable shock. The City had expected GDP to grow by 0.5%, in line with a forecast from the Office for Budget Responsibility (OBR) in late November. The setback is an ominous sign for an economy already facing a severe test in 2011, as the government's fiscal retrenchment moves from plans in Whitehall to reality on the ground. The main rate of VAT, a consumption tax, went up from 17.5% to 20% on January 4th; deep public spending cuts get under way in April. It seems that 2011 has become the year of living dangerously (for the government) and discontentedly (for the public), as rising inflation adds to the pain of Mr Osborne's austerity programme.

Still, while the obstacles to recovery might be even greater than had been expected, they are not insuperable. True, the boost from inventory rebuilding, which helped a lot last year, will wane. The usual engines of growth-consumer and public spending-will also be throttled down. But others-business investment and net trade-can provide thrust. After a steep plunge during the recession, companies have stepped up their capital spending, which rose by 8.9% in the year to the third quarter of 2010. That augurs well for higher business investment in 2011, led by big firms able to invest out of their own resources or by borrowing on the capital markets, and so unhindered by banks' reluctance to lend.

Given the fall in the pound of about 25% in its trade-weighted value from mid-2007, Britain's trading performance has been rather disappointing. But with continuing strong global growth-the IMF revised up its estimate for 2011 this week-there are good reasons to expect net trade to bolster the recovery this year. Manufacturers' export order books are bulging; goods exports are rising rapidly. Encouragingly, they have been increasing especially fast, though from a low base, to China, jumping by 44.6% in the three months to November compared with the same period a year earlier. Although services exports have been lacklustre, the OBR reckons that this weakness will not persist. Meanwhile, import growth should slacken as firms reduce the pace of import-intensive stockbuilding.

The gravest risk is that the surge in inflation might force the Bank of England to tighten monetary policy sooner than expected. The bank left the base rate at its all-time low of 0.5% earlier this month, but two of the nine members of its monetary-policy committee backed a quarter-point rise, according to minutes published this week. Mr King's remarks, however, implied that he at least is in no hurry to make an early move: he highlighted the squeeze on living standards from an inflation rate running well ahead of earnings growth.

This week's GDP figures have undeniably dented confidence. But recoveries rarely run smoothly. The 1.1% growth in the second quarter of 2010 was way above expectations and indeed the highest since early 2001. On the other hand, even if the fall or stagnation in GDP late last year does turn out to be a blip, growth in 2011 is likely to be a subdued affair. An upswing driven by exports and investment won't seem very plentiful to most people. After so severe a financial crisis and recession, it is hardly surprising that the best that Britain can hope for is a feel-bad recovery.

George Osborne and Ed Balls

Cavalier versus roundhead

Jan 27th 2011 | from PRINT EDITION

What the chancellor and his new opponent do and don't have in common



ON THE walls of George Osborne's office in 11 Downing Street are portraits of William Gladstone and Benjamin Disraeli, warring titans of 19th-century British politics. The chancellor of the exchequer chose his artwork long before Ed Balls became his opposite number on January 20th, after the resignation of Alan Johnson, the previous Labour shadow chancellor. The selection now looks prescient.

The rivalry between Mr Osborne (above left) and Mr Balls (right) is likely to be the story of this parliament. Their personalities, as well as their different perspectives on the economy, will see to that. Both men have a taste for the martial side of politics. Both are tribal members of their parties who shone as backroom advisers: Mr Balls to Gordon Brown when he was chancellor, Mr Osborne to various Conservative leaders. Voters have yet to warm to either, but both, in private, are laddishly garrulous and boast extensive hinterlands (Mr Balls is football-mad; Mr Osborne's rock-music collection reputedly stunned even Eric Clapton).

Mr Balls has long spoken of the dangers to a fragile economy of hasty spending cuts, and this week's alarming GDP figures lend some weight to his warnings. The ferocity with which he set about Michael Gove, his opposite number during his time as shadow education secretary last summer, has entered Brownite folklore. And then there is his sheer brainpower. Perhaps no serving British politician is better equipped for the painstaking work of building an economic policy than this economist and former *Financial Times* journalist, who has worked in the Treasury as both an adviser and a minister. He might never be lovable, but his earthy, plain-speaking style and faint regional accent could play better with financially squeezed voters than the conspicuously posh and metropolitan chancellor.

Still, the Tories believe he is a containable threat. Mr Balls-like Ed Miliband, the Labour leader-is tainted by association with Mr Brown, a hugely unpopular prime minister whose record as chancellor has also collapsed in popular esteem. Nor, say some, is Mr Balls really so very scary. In retrospect, it was the publication of mistaken information about school-building programmes that embarrassed Mr Gove, not the brilliance of his opponent. Despite considerable hype, Mr Balls failed to do much damage during his brief stint as shadow home secretary.

Both he and Mr Osborne aspire to lead their party and country; but this is potentially more disruptive for Labour than for the Tories. True, Mr Osborne has accrued influence far beyond his economic brief. He dominates the government's political as well as policy meetings, and is regarded by some as the unofficial chief executive of the coalition. But he has much better relations with David Cameron than Mr Balls has with Mr Miliband, whom he grew used to regarding as his junior in the Brown camp. Mr Balls has a following among Labour MPs, as his creditable third-place finish in last year's leadership election showed. Even if he behaves himself, he could still overshadow his boss through sheer talent and energy.

Mr Balls has a strongly held world view: he is a social democrat. He has a faith in the state that is typical of his party's Fabian wing, minus the cultural liberalism that usually comes with that label. Mr Osborne has beliefs too-in free markets, in balanced budgets, in an assertive foreign policy-but he is ultimately concerned with winning.

The difference is born of very different experiences in politics. Mr Osborne has never known personal adversity, but he has suffered plenty of the political kind. He toiled in the backrooms of the crumbling John Major government. He worked for the agriculture secretary during the mad-cow crisis. He was an aide to William Hague, now the foreign secretary, when Mr Hague floundered as Tory leader.

These traumas left him with a remorseless focus on achieving power for his party. He was convinced of the need for the Tories to rebrand themselves as modern and compassionate long before Mr Cameron was. Mr Balls, who did not experience Labour's comparably crushing defeats in the 1980s at first hand, is less wary of fixed beliefs and ideologies.

These are very similar and very different men. Their duel, while not quite worthy of the Victorian giants, is already compelling. Ultimately, though, it may be the economic cycle that decides the winner.

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Counter-terrorism laws

A balancing act

Jan 27th 2011 | from PRINT EDITION

Control orders linger on with a different name and in a more benign form

IT WAS never likely to win a ringing endorsement from Shami Chakrabarti, the vocal head of Liberty, a pressure group. But the coalition government's review of counter-terrorism powers, whose results were announced on January 26th, seems to strike a reasonable balance between undoing its predecessor's most illiberal measures and the requirements of public safety. For Nick Clegg, the deputy prime minister, who in opposition had promised to scrap control orders on suspected terrorists, it was vital to avoid another humiliating U-turn-after the torment his Liberal Democrat Party has endured over hikes to university-tuition fees, which it once pledged to scrap.

Most of the changes set out by Theresa May, the home secretary, are uncontroversial. Cutting the period terrorist suspects can be detained without charge from 28 to 14 days reflects the fact that the police have not sought a period longer than 14 days since 2007. Similarly, limitations on the use of random "stop and search" powers appear sensible, while there will be an almost universal welcome for curbing the abuse of the Regulation of Investigatory Powers Act, which governs some forms of surveillance, by snooping local councils.

But control orders were the thorniest problem. Introduced in 2005 to restrict the activities of people thought to pose a severe terrorist threat-but who could not be prosecuted for lack of admissible evidence or deported lest they face torture-control orders are objectionable for several reasons. Most obviously, they offend because the suspects suffer highly intrusive curtailment of their liberties without being convicted of a crime, or even knowing more than the "gist" of the evidence against them. And because of the impositions control orders have involved-strict curfews, relocation, bans on association and on access to mobile phones and the internet-suspects are placed in a kind of "evidence limbo", which undermines the prospects of successful future prosecution.

The government has decided that although only eight people are currently subject to control orders, simply abandoning all restrictions on them was too much of a risk. It has opted instead for a set of measures designed to be less draconian. Long curfews tantamount to house arrest will go, as will forcible relocation and most travel restrictions within Britain. Those affected will have more freedom to use electronic communications and to associate, work and study. A bit more money will be found for conventional surveillance. Critically, nobody will be subject to the new "terrorism, prevention and investigation measures" for longer than two years.

A key test for Mr Clegg was the verdict of Lord Macdonald, a Lib Dem peer and former director of public prosecutions, appointed by him to provide "independent oversight" of the review. Lord Macdonald, often a trenchant critic of counter-terrorism legislation, wants more detail on how and when the remaining restraints will be applied. But overall, he concludes that the recommendations "point to an unmistakable rebalancing...in favour of liberty". From Mr Clegg's point of view, job done.

BBC funding

Dosvidaniya, London

Jan 27th 2011 | from PRINT EDITION

Painful cuts at the World Service



Lost in transmission

EMERGING from imprisonment by Soviet hardliners at his Crimean dacha in August 1991, Mikhail Gorbachev credited an old short-wave radio with helping him resist the coup. Loyal guards had rigged up an antenna enabling him to hear foreign news, Mr Gorbachev explained: "the BBC sounded the best".

Two decades and a geopolitical age later, the BBC World Service revealed on January 26th that its Russian-language radio broadcasts are among several services that will be stopped because of a big budget squeeze. The cuts involve the loss of up to 650 jobs: five language services will close in their entirety; reports in seven more languages (including Mandarin) will be provided only on news websites. And all short- and medium-wave transmissions will cease by 2014, except for "lifeline" services such as Burmese and Somali.

Mark Thompson, the BBC's director-general, says the global media landscape looks "very different" from 20 or even ten years ago. The number of people listening to short-wave radios has been dropping fast, while a growing number now listen online or via local FM re-transmissions. New local broadcasters have popped up in places such as the western Balkans, Mr Thompson adds, defending the decision to close the Albanian-, Macedonian- and Serbian-language services (along with Portuguese for Africa and an English service aimed at the Caribbean). Audiences for other products, notably two commercially funded services-BBC World News, a 24-hour televised news channel, and BBC.com, a news website aimed at the overseas market-are rising fast.

The BBC World Service is currently funded by a grant from the Foreign Office, in contrast to the domestic BBC, which is funded by an annual licence fee payable by viewers in Britain. As part of sharp public-spending reductions, the World Service was told to cut 16% from its budget over the next three years. After April 2014 the service's operating expenditure-set at pound237m ($376m) this year-will be met by the BBC, as part of a broader deal brokered by corporation bosses desperate to defend the licence fee.

The foreign secretary, William Hague, said that he had reined in BBC proposals to close up to 13 language services. Even so, the BBC expects its average weekly audience will fall by 30m, from 180m now. A former managing director of the BBC World Service, Sir John Tusa, predicted that the cuts would weaken Britain's global reach, calling them "bad, bad, bad."

Audience figures for some of the doomed services are pretty low, it is true, with just 595,000 people tuning in to Mandarin radio broadcasts. Listening online might not impose an impossible burden on, say, British expatriates in western Europe, who will lose their medium-wave service from March. But is something else afoot? Some chewy news programmes on the

English-language World Service are also to close, and there will be an expansion of more accessible programmes, notably a cheap, cheerful and shockingly superficial audience-participation show called "World Have Your Say". It looks ominously like dumbing-down, under the cover of cuts.

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The furore over phone-hacking

Not going quietly

Jan 27th 2011 | from PRINT EDITION

Andy Coulson resigns; the Met reopens its inquiry; News International changes tack: the hacking scandal is back



NOT so long ago, hacking into private phone messages to get a juicy news story seemed no big deal-at least as far as some tabloid journalists were concerned. The spread of mobile phones, poor security and an insatiable appetite among "red tops" for scoops prodded some reporters, anxious to shine in the cut-throat world of British newspapers, to listen to private voicemails. Things look very different today. A sly journalistic tactic has morphed into an ugly, boiling brew of court cases, pay-offs, sackings, commercial jeopardy-and now a renewed police investigation.

The latest bout of the scandal began on January 21st, when Andy Coulson, the prime minister's communications chief and a former editor of the *News of the World*, resigned from Downing Street, confessing that the row was a distraction from his role. He had left the *News of the World*-owned by News International, Rupert Murdoch's British newspaper outfit-in January 2007, after Clive Goodman, the paper's royal correspondent, and Glenn Mulcaire, a private investigator, were jailed for illegally accessing the voicemails of members of the royal staff.

News International's oft-repeated line on those events-that the criminal incidents were the work of a single rogue operator-has now fallen apart. Several substantial payouts have been made to other hacking targets, including Gordon Taylor, a former football executive, and Max Clifford, a PR man, to ward off legal action. But lots of other celebrities (broadly defined), who have reason to believe their messages were intercepted, are suing. Court documents appear to show that Ian Edmondson, a senior *News of the World* journalist, had authorised Mr Mulcaire to hack phones belonging to Sienna Miller, an actress. (Ms Miller's stepmother claims that the family was targeted as recently as last year.) On January 25th Mr Edmondson was sacked. News International has suddenly changed its stance: it now vows to punish anyone implicated.

Outside the Fleet Street bubble, the biggest concern is how reluctant the Metropolitan Police appear to have been to pursue other cases. Critics suggest that close relations between the tabloids and senior police sources made the latter reluctant to delve deeper. Lord Prescott, who believes he was a victim of hacking when he was deputy prime minister-though the police didn't tell him so-is seeking judicial review of the Met's failure to investigate other allegations. A former senior officer notes a "general reluctance in the police to be dragged into investigations involving political interests and the media."

One defence offered by the police is that what exactly constitutes unlawful hacking is unclear. Some experts reckon the law on intercepts would not make listening to someone's messages after that person had heard them an offence, distasteful as it might seem. Mark Stephens of Finers Stephens Innocent, a media law firm, says that "the law on telephone intercepts predates mobile-phone technology and that created a grey area."

Still, the Met, too, seems finally to have woken up to the damage to its reputation. Claiming that it had received "significant new information", it launched another inquiry after Mr Edmondson was sacked. This time, John Yates, an assistant commissioner in charge of the investigation to date, won't be heading it.

But that is unlikely to be the end of the embarrassment, either for the tabloids or for the police. A committee of MPs this week said it planned to release the names of other hacking victims. Keir Starmer, the director of public prosecutions, has called for a "robust approach" to the affair. He has appointed Alison Levitt, a senior lawyer, to review the evidence-and by implication the Met's handling of it-for the Crown Prosecution Service.

Meanwhile, the *Daily Mirror* (not a Murdoch title) has been accused of phone-hacking by a former Liberal Democrat MP. Few in the industry believe that the practice was confined to one organisation. More allegations and probes are likely.

One former police chief believes that only a completely fresh inquiry will clear the air: "It would probably be best at this stage to hand it over to a big outside force." For now, the Met's nimble footwork means that it keeps hold of the investigation. But the new effort will have to be a lot more thorough than the first. A particularly troubling question is whether officers involved in the case had in the past been paid as informants by tabloids. The Met has not provided a clear answer.

High stakes all round

If the footsoldiers at the *News of the World* are sweating, the bosses are feeling the heat too. As it happens, Mr Murdoch was in London this week for talks with his executives. The scandal has reignited old resentments of his influence in Britain at a particularly awkward time: through News Corporation, he wants fully to take over BSkyB, a hugely profitable broadcaster in which News Corp already has a 39% stake. Critics and rivals say that the move would threaten media plurality.

On January 25th Jeremy Hunt, the culture secretary, suggested that News Corp might avoid an irksome referral of its bid to the Competition Commission, if it can provide adequate reassurances that the takeover wouldn't damage plurality. Some see this move as yet more evidence of ministers toadying to Mr Murdoch, others as a sensible precaution on Mr Hunt's part.

Formally, the issues of phone-hacking and of Sky are separate. But atmospherics matter-and the man who revived Britain's flagging newspapers in the 1980s now finds the antics of his tabloids threatening his ambitions. Journalism, as a veteran scribe once put it, is a rough old trade.

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The National Security Council

Defenders of the realm

Jan 27th 2011 | from PRINT EDITION

The new National Security Council is a good idea, but will need more clout



Kissinger, an archetype but not a model

ONE of the coalition government's first acts on taking office last May was to establish a National Security Council (NSC) and appoint a national security adviser (NSA). It all sounded very transatlantic, a conscious attempt to create a British version of America's NSC, the powerful body first formed in 1947 that operates from the West Wing of the White House. But although it represents an important change at the centre of government, the new NSC is a very different beast from its American counterpart.

The idea of a British NSC was first floated in the middle of the last decade. Government departments working in separate silos seemed ill-prepared to meet the new range of threats facing the country-in particular, international terrorism (and its home-grown offshoot), cyber attacks and the vulnerability of critical infrastructure to both. At the same time, Britain's overstretched armed services were involved in two wars, neither of which was going well.

There were two relevant ad hoc ministerial committees, one covering national security and international relations, the other, civil contingencies. But neither met regularly nor made much attempt to work with the other. Meanwhile, the prime minister, Tony Blair, had a foreign policy adviser and an intelligence co-ordinator, who both worked from Number 10. The arrangements suited Mr Blair's much-criticised "sofa" style of government. His successor, Gordon Brown, set up a National Security Committee, but, typically, it never came to much.

The Conservatives, with the support of the Liberal Democrats, their coalition partners, thought they could do better. They saw the new NSC as both an instrument for co-ordination in Whitehall and as a way to encourage more strategic thinking. But they did not want a body that would usurp the role of ministers or the civil service. Indeed, a specific aim was to introduce more rigour and transparency into a system the Tories believed had been undermined by Mr Blair's casual approach. They placed the NSC within the Cabinet Office, a small department that works with the prime minister and the cabinet to smooth the running of government.

That meant that the national security adviser would have to be somebody with a deep understanding of Whitehall, rather than a buccaneering global strategist like Henry Kissinger, Richard Nixon's legendary NSA. Hence the appointment of Sir Peter Ricketts, previously the administrative head of the Foreign Office and the epitome of discreet civil-service efficiency. The permanent membership of the NSC would comprise 11 senior ministers, the chief of the defence staff, the heads of the country's three main intelligence agencies and the cabinet secretary. The council would meet every week and usually be chaired by the prime minister.

Since it was formed, the NSC has had three big things on its plate: a review of counter-terrorism and security powers; the first Strategic Defence and Security Review (SDSR) for 12 years; and determining the size and duration of Britain's deployment in Afghanistan. The last is the biggest ongoing issue, but the toughest test so far has been co-ordinating the SDSR.

Given the short time that was available for this daunting task, and a defence budget disintegrating under the weight of commitments undertaken by the previous government, a happy outcome was never likely. According to people involved,

too much was left to the last moment and there was insufficient political leadership: David Cameron is said to be a rigorous chairman, but his style is to hold back until his intervention is absolutely necessary. The result was some poor decisions; critics suggested the NSC was guilty of concentrating too much on the present war and not enough on longer-term threats.

But, at least according to one NSC member, things would have been much worse without it. "Intelligence was at the heart of everything," he says approvingly, "which is why counter-terrorism and cyber were treated as priorities." The intelligence services do indeed believe that their influence has been usefully strengthened. On the other hand, the military element, represented only by Sir David Richards, the chief of the defence staff, urgently needs beefing up.

Other questions about the new body include whether it needs a bigger secretariat to do its job properly, and who should succeed Sir Peter when he leaves in a few months for an end-of-career stint as ambassador in Paris. Rumour has it that the new NSA will be another Foreign Office mandarin, Sir Kim Darroch, currently Britain's permanent representative to the European Union. The next incumbent will be the person who really defines the role.

Some argue that he will need a closer personal relationship with Mr Cameron than Sir Peter has sought. Others say he must speak for the NSC, not just for the prime minister, and that it was partly to get away from that sort of informality that the NSC was formed. One member of the council says: "The prime minister can't have a foreign policy of his own. The security adviser must work for consensus." There is little argument, however, that Sir Peter's successor will have to be more outward-looking, working the growing global network of national security advisers.

One way to judge the NSC's progress will be whether it succeeds in carrying through the new national strategy on cyber-defence, and whether it can bring together effective policies aimed at countering Islamist radicalisation. Both will require a combination of political clout, intellectual horsepower and administrative skill. The NSC has made a reasonable if patchy start, but it has a lot to prove.

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Bagehot

Nice up north

Jan 27th 2011 | from PRINT EDITION

Why David Cameron is fascinated by Sweden and its neighbours



BRITAIN'S previous prime minister, Gordon Brown, was not always keen on meeting foreigners nor very good at hiding it. Though fascinated by America, a few other very large countries and the fine points of international economic governance, Mr Brown's diplomatic strategy-notably in Europe-mostly involved delivering lectures on British cleverness and leaving meetings early. On being asked to lobby European Union ambassadors, so one account of New Labour's demise records, an enraged Mr Brown shouted: "Why are you making me meet these fucking people?"

Thus the contrast was striking when David Cameron invited the prime ministers of eight Baltic and Nordic countries to a summit earlier this month. Sitting in his shirtsleeves and frowning with concentration, Mr Cameron spent hours quizzing Finns about female entrepreneurs and Swedes about selling music online, or patiently nodding as the prime minister of Iceland (population 319,000) praised fathers who take three months of paternity leave. The mood was self-consciously informal: the leaders were distinguished only by pale blue lapel pins as they pottered about the summit venue, a modish art gallery in east London. Humility was Mr Cameron's watchword. Nordic countries scored higher on international rankings for well-being, women in the workforce and children's quality of life, he repeatedly said. This gave Britain "pause for thought".

What was Mr Cameron up to? Several things. He is keen on alliances, seeing Britain as a hub nation in a world of networks. The eight Baltic and Nordic governments are already united by everything from wariness of Russia to an interest in shared energy grids. Scattered across Europe's northern periphery, they know there is no point waiting for the world to come to them: hence their obsession with free trade, competitiveness and distance-shrinking digital technology. Some are voices for open markets and budget discipline in the European Union, others for Atlanticism in NATO; many are both. At its simplest, Mr Cameron sees an interest in befriending their gang.

But beyond that, Mr Cameron-like other British politicians before him-is sincerely curious about the Nordic nations, home to what one senior figure calls "brilliant ideas working well". Enthusiasm for countries such as Sweden used to be a preserve of the left, who swooned about a northern New Jerusalem in which contented, gender-sensitive citizens traded high taxes for gleaming (if bossy) public services: a nanny state with beach cottages and Volvos for all.

Nordic voters remain keen on the state, thanks to what Sweden's centre-right prime minister, Fredrik Reinfeldt, calls a centuries-old conviction that "the state should be good, is not being controlled from behind, is not corrupt and can be a partner for growth." But-crucially for Mr Cameron and his team-following a series of financial crises, Nordic voters have trusted centre-right governments to save states from ruin by means of budget rigour and market-based reforms, from profit-making free schools to tough welfare-to-work rules.

Mr Reinfeldt won office in 2006 (and re-election in 2010) by moving his Moderate party to the centre, vowing to overhaul but not dismantle the state. He declared that soft-hearted welfare rules had condemned citizens to "social exclusion", paying some 20% of the working-age population to sit at home on benefits or subsidies. Britain's chancellor of the exchequer, George Osborne, has spent much time talking to his brilliant (if irritatingly pony-tailed) Swedish counterpart, Anders Borg, about Sweden's experience slashing a big budget deficit in the mid-1990s. The main lessons from Mr Borg: cut quickly; dare to cut the biggest budgets such as social benefits and pensions; ensure the rich bear more of the burden; reform welfare to make work pay and brace yourself for a backlash. Mr Osborne is learning this last lesson already, vowing he would not be "blown off course" by a surprise contraction of the British economy, announced on January 25th.

Mr Cameron paid a study visit to Sweden in 2007, while his policy guru Steve Hilton (the driving force behind the London summit) grew close to Per Schlingmann, ideas man to Mr Reinfeldt. The friendship between the two party leaders-similar in age and each cultivating the image of a moderate, bourgeois family man-is genuine, though it has at times teetered on the brink of blokier-than-thou competition. While in opposition, Mr Cameron invited the Swede to his house for supper. I bicycle home, so may be late, he warned Mr Reinfeldt. Great, replied the Swedish prime minister, I'll grab a pint at a pub near your house.

Only nanny can set you free

Yet Scandinavians still make some Tory teeth grind. It is not so much their high taxes. As Mr Cameron's circle notes ruefully, British taxes are not so far off Nordic levels. But when it comes to values-especially family values-the gap is wide. A new paper, "The Nordic Way", submitted by Nordic governments to this week's World Economic Forum at Davos, hails Nordic citizens as "secular-rational" individualists, liberated by the state from any obligation to support elderly parents and given the freedom to work by cheap day care for all (in Sweden, more than 80% of two-year-olds attend preschool, often for six hours a day). Mr Reinfeldt himself suggests that women do not just help the economy by working, they gain autonomy from men, arguing: "At the end of the day, you don't know if your marriage will last."

Mr Cameron is clear-eyed about how far he can take such ideas in Britain. His quest is for growth and jobs, and making public finances sustainable. A clutch of titchy but ingenious neighbours have some suggestions. It is a mark of this prime minister's self-assurance that he is happy to listen and take notes.

Economist.com/blogs/bagehot

The politics of food

Hungry for votes

Jan 27th 2011 | *WASHINGTON, DC* | from PRINT EDITION

How much do rich governments really worry about feeding the world?



LIKE national defence, securing food supplies usually counts as a core task of government. Hence, as prices surge, food security is rising to the top of the political agenda. Or so it sounds.

On January 24th the British government's chief scientific officer said that "the case for urgent action in the global food system is now compelling." He was presenting a report from hundreds of scientists that concluded with "a stark warning for both current and future decision-makers on the consequences of inaction-food production and the food system must assume a much higher priority in political agendas across the world."

Politicians say they are listening. "If we don't do anything," France's president Nicolas Sarkozy said on the same day, "we run the risk of food riots in the poorest countries and a very unfavourable effect on global economic growth."

Companies are attentive, too. At the Davos gathering of the self-proclaimed great and good a few days later, a score of firms, including seed companies, food processors and grain traders proclaimed: "The world needs a new vision for agriculture." They promised to work with farmers and governments to boost farm output, cut emissions and reduce rural poverty, all (in an amazing coincidence) by 20% each decade. Amid this sense of renewed urgency, though, lurks fear: that politicians will prove as fickle about food today as they have been in the past.

The first people to say that feeding the world deserved more attention were not politicians, scientists or business people. They were aid workers from the Gates Foundation, a charity originally set up to focus on health. It started paying for agricultural research in 2006, long before food prices leapt. "We realised you couldn't do health without doing something

about hunger and poverty," says the foundation's Prabhu Pingali. "And you couldn't do something about hunger and poverty without agriculture." Since then, the foundation has given $1.4 billion of grants to third-world farmers; its programme is now comparable to America's.

In 2009, in response to soaring prices, food riots and disruption to world trade, rich governments also began to worry about agriculture, and promised to do something about its problems. "To the people of poor nations," said Barack Obama in his inauguration speech in January that year, "we pledge to work alongside you to make your farms flourish." In November 2010 he set up a bureau of food security in the government's main aid agency, US-AID, to provide money and give clout to the promise.

America bullied other countries into following suit. At a summit meeting in Italy in 2009, the eight richest nations promised $20 billion over three years for food security and agricultural development. That led, after yet another summit, of the G20 (the world's largest economies) in Pittsburgh, to something called the Global Agriculture and Food Security Programme (GAFSP), formally set up in April 2010. Donors pledged $900m, more than half of it from America. These promises embodied the claim that rich countries are pushing for a second Green revolution and are determined to combat global hunger.

Now that claim is being put to the test. After rising through the second half of 2010, food prices-as measured by *The Economist*'s own food index-surpassed the 2008 peak this week. But so far, the world's leaders have been found wanting.

Anatomy of melancholy

	Fears	Hopes	Options
Farmers	Harvest failure; bad weather	High prices; jobs in the city	Demonstrate*; switch crops
NGOs	Hunger; GM	Low prices	Scaremonger
Politicians	Food riots	Low prices; farmers' votes†	Tariffs; subsidies
Scientists	Climate change; pests; diseases	GM; biochemistry	Work late in lab
Companies	Falling yields	Profits	Invest

Source: *The Economist* *In rich countries †Where applicable

In November, 20 poor countries submitted their requests to GAFSP for projects worth $1 billion. Only three got anything. That was unsurprising. Roger Thurow of the Chicago Council on Global Affairs, a think-tank, notes that GAFSP is "already gasping". America has handed over only $67m of its promised $475m. Congress has whittled down the president's budget request for a further $400m to $100m. An accompanying piece of legislation to help switch US-AID's efforts from emergency aid to long-term investment seems to have been torpedoed. Two dozen aid agencies recently warned Mr Obama of a "strong risk" that GAFSP would cease to exist.

Other countries are reneging too. Less than one-third of the promised $20 billion for agriculture turns out to be new money. Much of that has not arrived. A big cause of food-price rises is trade bans by exporters. The G20 has asked the Russian government to study how to block these. But Russia is one of the chief culprits: Foxes Inc regulating hencoop security.

It is hardly surprising that scientists and business people are raising the alarm about feeding the world. "I'd like to say agriculture is at the top of the agenda," says Dan Glickman, also of the Chicago council and a former American agriculture secretary. "But I don't believe it. What's needed is sustained leadership from governments, NGOs and the private sector. I see it from [Bill] Gates and some companies. But the big resources have to come from governments, and that's much harder now."

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Fighting poverty

High life

Jan 27th 2011 | *ROME* | from PRINT EDITION

Hard questions for a poverty-buster



To rent: tenant with steady job preferred

WORTHY but low-profile, the Rome-based International Fund for Agricultural Development (IFAD) is a United Nations agency that helps the world's rural poor, mainly through low-interest loans and grants. Its director since April 2009 is Felix Kanayo Nwanze, an experienced Nigerian agricultural entomologist. He has brought what an admiring report last year termed a "more evangelical" approach to the job, berating as "mercenaries" staff who lack personal involvement in their work and care too much about their generous UN pay and allowances. He has pushed through cuts aimed at making IFAD leaner and fitter.

Yet he is now at the centre of a row over his own benefits. When IFAD's Governing Council opens its annual meeting on February 19th, one of the agenda items will be the grandly worded "Emoluments of the President".

Mr Nwanze's salary is "on a par" with that of the boss of the much bigger Food and Agriculture Organisation; plus an annual $50,000 representation allowance, and his entire housing costs. In October *Italian Insider*, a newspaper, reported that housing Mr Nwanze, his wife and their three children cost an annual euro400,000 ($545,000). They lived in a villa on the Appian Way "set in two hectares of manicured lawns and parkland". The monthly rent alone was euro16,000. IFAD says the total for 2010 was less than budgeted, though more than euro300,000. Although less palatial than, say, the British ambassador's residence, many might find it opulent for the head of an outfit that aims to help the billion-odd who live in rural wretchedness.

IFAD at first declined to discuss the issue, saying only that the executive board had "closed the matter" and had "expressed their satisfaction with the transparent manner" in which it was handled. Pressed for more detail, it said Mr Nwanze had left his villa for somewhere costing only euro10,000 a month, the same amount his predecessor paid.

It added that he had asked his staff to find him new housing as long ago as July. A spokeswoman said that Mr Nwanze had neither chosen his original villa, nor negotiated the rent. Information about its true cost had become available only "in a gradual fashion" and the president had "taken full responsibility for any errors in judgment". The hot potato flew farther: IFAD's board acknowledged its "shared responsibility"; but it also blamed poor guidance from a committee that deals with pay and allowances. That reconstituted body will now report on Mr Nwanze's "overall emoluments and other conditions of employment".

By the bland standards of the UN world, this is stormy stuff. Nobody has alleged wrongdoing. But it hardly seems the hallmark of a well-run organisation. Especially one that should have its collective mind firmly focused on leaner and meaner pastures.

Second helpings of tapioca pudding

Jan 27th 2011 | *MACHAKOS, KENYA, AND ST LOUIS, MISSOURI* | from PRINT EDITION

A crucial crop in new trouble



Hardy and humble. But healthy?

FRANCIS MUTUNGI, a farmer in dry eastern Kenya, stands engulfed by his cassava plants, the bright green leaves spreading out like six-fingered hands to touch his shoulders. Some have been dug up; their roots (the edible bit of the plant) lie like giant beached starfish.

Luckily, he planted a variety resistant to a disease that is ravaging Africa's second-most-important crop in terms of calories. A neighbour's cassava is barely knee-high; its leaves are blighted, its roots shrivelled and rotting.

Cassava (also known as tapioca or manioc) is the world's fourth-largest calorie provider. It grows in hot, arid regions where other crops will not thrive. It resists drought and climate change better than cereal crops like rice. It has to be processed within a couple of days of harvesting, and is vulnerable to huge post-harvest losses (40% in some places). So it is not much eaten by city dwellers.

But it has one amazing plus. It will keep in the ground for years. That makes it "the perfect food-security crop", says Claude Fauquet, of the Danforth Plant Science Centre in St Louis, Missouri, which researches Africa's overlooked crops. You plant it alongside maize or beans. If those fail, eat the cassava; if they thrive, save it for another year. (Less happily, with no need to stop for the harvest, wars in cassava-growing lands can be continuous.)

Now two viruses-cassava mosaic disease and brown streak disease-are destroying up to half the crop in areas they infest. In Africa, where the diseases are rampant, farmers get about 8.5 tonnes a hectare; in Vietnam, where they are unknown, the yield is 17 tonnes; in South India, 26 tonnes. The result is that cassava remains a subsistence crop in Africa, but in Asia is something on which you can build a business (it can also be used to make clothing, paper and biofuels). Mr Fauquet reckons a yield of 20 tonnes a hectare means money in the bank; 25 tonnes means a house and private school for the children. But below 12 tonnes, it traps a farmer in poverty. The diseases make a vast difference.

One problem is that viruses cannot be killed by fungicides and other agrochemicals. Another is that planting stem cuttings, the usual way of propagating cassava, passes down disease more readily than propagation by seeds. Mr Fauquet has managed to breed disease-resistant plants in his laboratory. But field trials have only just begun for mosaic disease and do not start for brown streak until later this year. He thinks genetic modification of this humble crop, so far from the world of advanced science, will provide the most comprehensive defence and be the best way to boost yields.

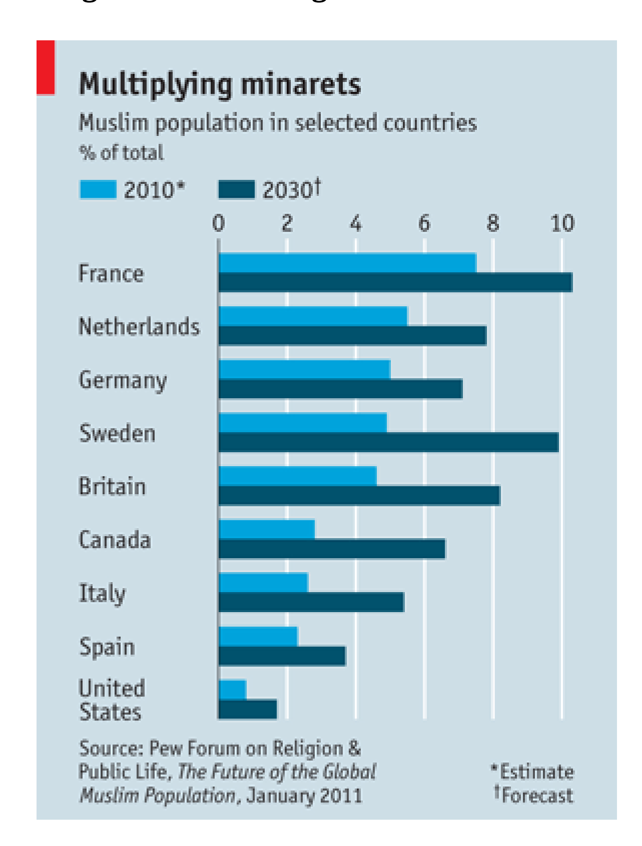
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Islam and demography

A waxing crescent

Jan 27th 2011 | from PRINT EDITION

Islam is growing. But ageing and slowing. That will change the world



ARE Muslims taking over the world, or at a minimum, transforming Europe into Eurabia? Whatever your hopes or fears for the future of the world's religions, a report published this week has plenty to stoke them. "The Future of the Global Muslim Population", produced by the Pew Research Centre, a non-profit outfit based in Washington, DC, reckons Muslim numbers will soar from 1.6 billion in 2010 to 2.2 billion by 2030. In other words, from 23.4% to 26.4% of the global total.

At the heart of its analysis is the ongoing effect of a "youth bulge" which peaked in 2000. In 1990 Islam's share of the world's youth was 20%; in 2010, 26%. In 2030 it will be 29% (of 15-to-29-year-olds). But the Muslim world is slowly heading towards paunchiness: the median age in Muslim-majority countries was 19 in 1990. It is 24 now, and will be 30 by 2030. (For French, Germans and Japanese the figure is 40 or over.) This suggests Muslim numbers will ultimately stop climbing, but later than the rest of the world population.

The authors call their calculations demographic, not political. Drawing on earlier Pew research, they say conversion is not a big factor in the global contest between Islam, Christianity and other faiths; the converts balance out. Nor do they assess piety; via the imperfect data of the United Nations, the European Union and national statistics, they aim simply to measure how many people call themselves Muslim, at least culturally, if asked.

New numbers, they say, will change the world map. As Indonesia prospers, its birth rate is falling; South Asia's remains very high. By 2030, 80m extra mouths in Pakistan will boost its Muslim numbers to 256m, ousting Indonesia (with 239m) as the most populous Islamic land. India's Muslim minority will be nearly as large at 236m-though growth is slowing there too. And in 2030 India's Muslims will still constitute only a modest 15.9% of that country's swelling total, against 14.6% now.

The report asserts no causal link between Islamic teaching and high fertility rates, although it notes that poverty and poor education are a problem in many Muslim lands. In Muslim countries such as Bangladesh and Turkey, it observes, the lay and religious authorities encourage birth control. Better medical care and lower mortality boost poor-country population numbers too.

Some bleak findings concern Nigeria, where Muslim numbers are seen rising to 117m in 2030 from 76m now, edging up from 47.9% to 51.5% of the population. Illiteracy among Nigerian women of child-bearing age is three times as high among Muslims (71.9%) as among others (23.9%). Two-thirds of Nigerian Muslim women lack any formal education; that goes for just over a tenth of their non-Muslim sisters. The fertility rate is between six and seven children per Muslim woman, versus five for non-Muslims. It is hard to prove that these factors are related, but they do seem to form a pattern.

Eurabian nights

The total Muslim share of Europe's population is predicted to grow from 6% now to 8% in 2030: hardly the stuff of nightmares. But amid that are some sharp rises. The report assumes Britain has 2.9m Muslims now (far higher than the usual estimates, which suggest 2.4m at most), rising to 5.6m by 2030. As poor migrants start families in Spain and Italy, numbers there will rocket; in France and Germany, where some Muslims are middle-class, rises will be more modest-though from a higher base. Russia's Muslims will increase to 14.4% or 18.6m, up from 11.7% now (partly because non-Muslims are declining). The report takes a cautious baseline of 2.6m American Muslims in 2010, but predicts the number will surge by 2030 to 6.2m, or 1.7% of the population-about the same size as Jews or Episcopalians. In Canada the Muslim share will surge from 2.8% to 6.6%.

How will liberal democracies accommodate such variety? The clarity of a written constitution may give America an advantage over many European countries, where unwritten custom has more sway. Jonathan Laurence, an Islam-watcher and professor at Boston College, thinks Europe could rise to the challenge, but failure is also easy to imagine. Europe's Muslims should, by 2030, have become articulate and effective political bargainers. But with nativism on the march, it is also highly possible that Muslims will come to feel they have less in common with their fellow citizens than with their growing band of co-religionists elsewhere.

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India

Identifying a billion Indians

Jan 27th 2011 | *BELGUMBA* | from PRINT EDITION

Reliable identity numbers could create many opportunities for business



IN A small village north-west of Bangalore, peasants queue for identities. Each man fills in a form with his name and rough date of birth, or gets someone who can read to do it for him. He places his fingertips on one scanner and stares at another. A photograph of his face is snapped. These images are uploaded to a computer. Within a few weeks he will have an identity number.

The Indian government is trying to give all 1.2 billion Indians something like an American Social Security number, but more secure. Because each "universal identity number" (UID) will be tied to biometric markers, it will prove beyond reasonable doubt that anyone who has one is who he says he is. In a country where hundreds of millions of people lack documents, addresses or even surnames, this will be rather useful. It should also boost a wide range of businesses.

So far the process has gone smoothly. More than 1m people have been enrolled since October, and the pace is accelerating. It needs to: 1m is less than 0.1% of the population. The scheme presents difficulties both for the people in charge, many of whom were recruited from software firms, and for the private contractors who are doing much of the work. How do you ensure that the data are accurate? How do you build a robust database containing biometric information about more people than any other? How do you deal with peasants whose fingerprints are unreadable after years of manual work? (Adding moisture to their fingertips helps.)

When an individual is enrolled, his biometric data must be compared with everyone else's to ensure there is no duplication. Sometimes the workers who show people how to place their fingers on the scanner accidentally scan their own fingerprints. As enrolments hit a peak of about 1m a day, the system will need to carry out a staggering 14 billion matches per second.

This mighty task has been awarded to private contractors in an unusual way. There are three vendors: Accenture and L-1 Identity Solutions of America, plus Morpho of France. The firm that does the fastest, most accurate job gets 50% of the work; the others get 30% or 20%. This allocation is frequently reassessed, so if the second-best firm starts doing better, it picks up some work from the leading firm. This keeps everyone sharp.

One database, many possibilities

The government's aim is to improve services and reduce corruption. A shocking two-thirds of the subsidised grain that the government allocates to the poor is either stolen or adulterated. When middlemen say they have delivered so many bags of rice to so many thousands of peasants, there is no way to tell if they are lying. But if each peasant has to scan her irises every time she picks up her ration, it will be harder to scam the system. Similar controls could be used to curb voter fraud.

A reliable way of identifying people would also smooth financial transactions. Some 42m poor households toil for a government scheme that guarantees them up to 100 days of work at the minimum wage each year. The money is welcome; the trek to the bank to collect it is not. Ram, a peasant in Madhya Pradesh, walks 6km (4 miles) to the bus stop, travels 14km clinging to the roof of a bus, waits two hours in the bank and then does it all again in reverse. The trip swallows a fifth of his earnings, in the form of fares and the opportunity cost of missing a day's work.

The identity scheme could help Ram avoid this hassle. The plan is to supply scanners to village shops and link them to distant banks via mobile phones. The man could walk in, scan his fingers and authorise the bank to transfer his money to the shopkeeper's bank account. The shopkeeper could then advance Ram the money, minus a small fee.

Small shopkeepers are salivating. B.C. Manjunath, who runs a tiny *kirana* store selling boiled sweets, soap and single eggs, sees two ways to profit. As well as charging fees, he would benefit from customers with more cash in their pockets. At present he has little choice but to extend credit. Customers owe Mr Manjunath's family 20,000 rupees ($440), interest free.

Because the UID system is an open platform, businesses will be able to graft inventive applications onto it. Hospitals could match medical records with patients who are far from home. This would help make records portable, says Shivinder Singh, the managing director of Fortis Healthcare, a chain of private hospitals. Insurance would become easier to provide. Barely one in 100 Indians has health insurance, not least because identities are so hard to verify. Indeed, all kinds of insurance would be much cheaper if companies had a reliable way of discovering, for example, that a man applying for car insurance in Mumbai had been convicted of drink-driving in Delhi.

Microfinance should start to work better, too. It enjoyed a huge boom in recent years, followed by a bust. Many poor people found they could borrow more than they could ever hope to repay by going to several lenders. As a result, some microfinance outfits collapsed. The UID scheme ought to allow for greater control over such small loans.

A secure identity system will also help schools, reckons Suhas Gopinath, the boss of Globals, a firm that helps schools handle information. It would make it easier to monitor each student's progress, he says. And if a student migrates to another state, his school records could move with him.

Even with strict controls for privacy, the UID scheme will help companies understand more about the population they serve. "It would be fantastic for just about any business," predicts Mr Singh. There is a caveat, of course: the scheme must work. Britain has put off plans for biometric identity cards partly because of worries about soaring costs and technical snafus. Building and running India's database is a challenge as gargantuan as India itself.

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Budget airlines

In the cheap seats

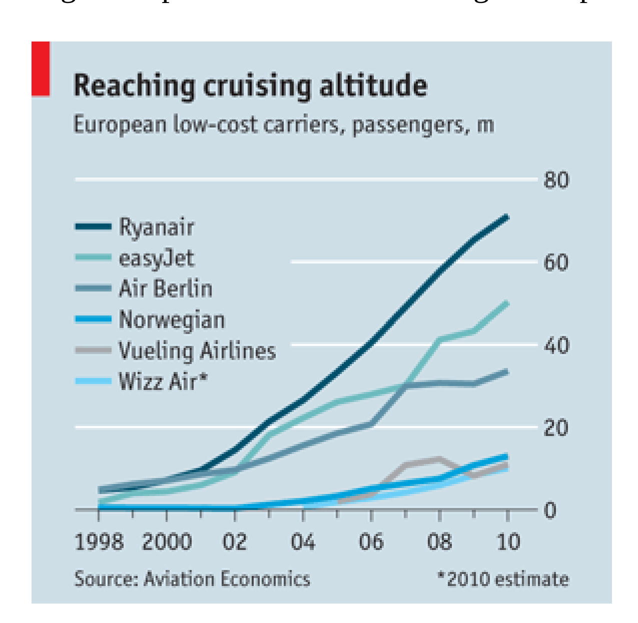
Jan 27th 2011 | from PRINT EDITION

With traffic expected to slow, low-cost air carriers are getting fancy



SINCE taking off in the mid-1990s, Europe's budget airlines have soared to account for a third of all air travel in the region. But their growth is slowing. Having introduced holidaymakers to once obscure places like Tallinn and Sharm el-Sheikh, the low-cost carriers are left with few new places to explore. National airlines such as British Airways and Lufthansa have tried to defend their business by offering stripped-down service and cheaper fares on more short-haul routes. "The low-cost carrier market used to be about fast growth and uncomplicated strategies," says Keith McMullan, of Aviation Economics, a consultancy. "Now it is about slow growth and complicated strategies."

The model for all the new outfits was Southwest Airlines, the original American budget carrier. Low-cost airlines held down maintenance costs by using just one kind of aircraft, bought in large numbers with bulk discounts. They charged for, or did away with, frills like meals and drinks. Aeroplanes flew back and forth along a single route, often between quiet, out-of-the-way airports, rather than using busy hubs. As a result the airlines could turn planes around in less than half an hour. Almost from the beginning, bookings took place online. Such savings were passed on to customers.



Ryanair, the market leader (see chart), exemplifies how the industry is changing. Its passenger growth is expected to slow from 14% in 2009-10 to 6% by 2013 and just 4% thereafter. Ryanair is still committed to cheap fares and secondary airports where landing charges are low or non-existent. But it plans to drop ultra-low fares on new routes and may move some flights to primary airports, which are wooing low-cost carriers to boost flagging growth. Ryanair has already moved into one in Barcelona. In future it will concentrate less on increasing traffic and more on extracting larger amounts of money from each passenger.

Its main rival is going further. EasyJet already offers greater frequency on its routes and makes more use of primary airports such as London Gatwick and Paris Charles de Gaulle. It is also targeting cost-conscious business travellers. The firm recently smartened up cabin service. Passengers can opt for priority boarding either by paying extra for their ticket (as with Ryanair) or by joining easyJet's loyalty scheme. There is an exception: easyJet's German operation aims at the sun-seeker market.

EasyJet certainly needs a new direction. It has struggled in recent years as cost-cutting ate into reliability (Ryanair, by contrast, has a good reputation for punctuality and keeping passengers together with their luggage). On January 20th easyJet's shares fell by 16% after a trading statement forecast losses of pound160m or so in the six months to the end of March. The listed airline has sparred with its founder and biggest shareholder, Sir Stelios Haji-Ioannou, who thinks it has been buying too many aircraft and is losing too much money in winter.

Perhaps the most dramatic example of changes in the market is Air Berlin, which has swallowed several smaller carriers to emerge as Germany's second airline and the third-biggest budget carrier in Europe. Air Berlin now arranges its timetables to encourage transfers at its Berlin Tegel, Dusseldorf and Palma hubs, like a traditional network carrier. It also has a frequent-flyer programme. Through its Niki associate in Austria, the airline even offers a direct flight from Berlin to Dubai three times a week. It is discussing a co-operation deal with Emirates, so that passengers from the Gulf carrier can connect in Vienna to fly to other European cities. Air Berlin is also joining the oneworld alliance based around British Airways and American Airlines.

Like Air Berlin, Norwegian, the fourth-largest budget carrier, is spreading its wings by offering longer flights to the Middle East and north Africa-encroaching further into traditional airlines' territory. They will have to get used to such incursions. The European sky used to offer a stark choice between full-service and budget airlines. It is increasingly crowded with options of all shapes, sizes and costs. Take your pick, and hope your luggage arrives.

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Litigation in America

Class discipline

Jan 27th 2011 | *NEW YORK* | from PRINT EDITION

The Supreme Court could change the face of class-action law

WAL-MART attracts superlatives. It is the biggest private employer in the world's biggest economy, with 4,300 stores and 1.4m employees in America pulling in sales of $258 billion in the 2009-10 financial year. It may soon acquire a new distinction: being sued by the biggest-ever group of people. This spring the Supreme Court will consider whether 500,000-1.5m women who have worked at Wal-Mart since 1998 can be certified as a class in a sex-discrimination lawsuit. It is one of several cases which American businesses are watching with a mixture of fear and hope.

The courts are increasingly crowded. Littler Mendelson, a firm that often represents employers, reckons job-based class-action filings have grown from 2,999 in 2008 to 4,140 in 2010. The annual number of settlements has jumped from 91 to 205 since 2006. Last year a jury ordered Novartis, a drugs-maker, to pay $250m to a class of 5,600 female employees. The penalty was reduced to $175m on settlement-still a hefty sum. Gerald Maatman of Seyfarth Shaw, another legal firm, says such awards set new benchmarks and encourage copycat filings. "We keep thinking the wave has crested, but it has grown," he says.

The Supreme Court could break that wave. The Wal-Mart class certification was upheld by a 6-5 majority in the Ninth Circuit appeals court, covering the American West. But that court tends to be liberal. A recent analysis of the Supreme Court under John Roberts, the current chief justice, co-authored by Richard Posner, an appeals-court judge, found it to be markedly business-friendly. The Supremes have been particularly keen on arbitration as a means of resolving disputes. They may use the Wal-Mart case to state clearly what plaintiffs must have in common to be certified as a class. Two X chromosomes and a blue uniform may not be enough.

Another case, *AT&T v Concepcion*, could shape class-action law even more profoundly. Two Californians were charged sales tax on a mobile phone that they received "free" after buying another one. Their contract with AT&T provided for mandatory arbitration, not class-action lawsuits. But California law can render such clauses inoperable if they would be "unconscionable". So the phone-buyers organised a class-action suit. The Supreme Court will decide whether to defer to federalism (California's defence of the right to class-action suits) or to encourage arbitration. The judges revealed little during oral arguments in the autumn.

Shannon Liss-Riordan, a plaintiffs' labour lawyer in Boston, says a victory for AT&T could cripple class-action lawsuits by allowing firms to shift even legitimate cases into arbitration. Although she acknowledges that some class-action cases should not have been filed, she says it is far from easy to get a class action going. Their existence prevents companies from getting away with smallish wrongs spread out among large groups, she argues.

Not so, says Philip Howard of Common Good, a legal-reform advocacy group. Class-action cases often result in trifling payments to individual plaintiffs but fat profits for lawyers. He says that "entrepreneurial" lawyers have distorted class-action suits from their original purpose of serving victims of a single event. Lawyers on both sides are hoping the Supreme Court will define the rules more clearly. Even split decisions-in favour of Wal-Mart and against AT&T, say-would keep the class-action engine running, but suggest that the high court thinks it is getting out of control.

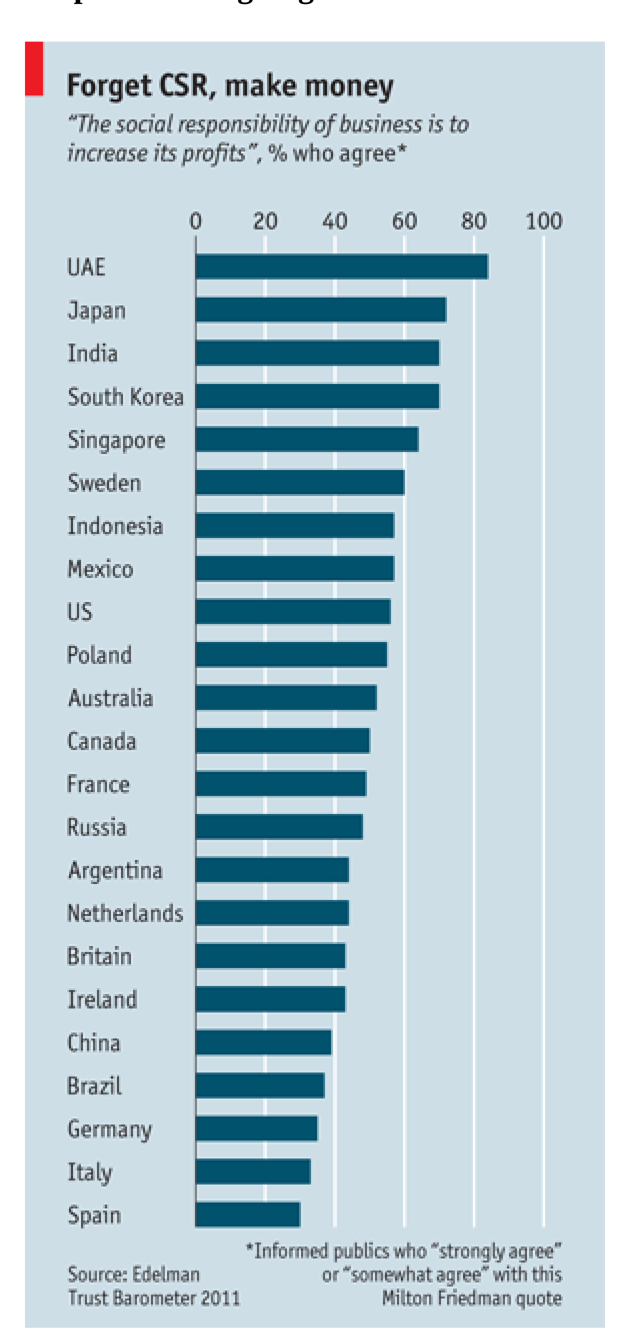
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Attitudes to business

Milton Friedman goes on tour

Jan 27th 2011 | from PRINT EDITION

A survey of attitudes to business turns up some intriguing national differences



PUBLIC-RELATIONS folk are not noted for burning the midnight oil over the works of great economists. But Edelman, an American firm, has come up with a clever idea. It asked members of the "informed public"-broadly, people with university degrees who are in the top quarter of wage-earners in their particular age groups and countries-what they think of Milton Friedman's famous assertion that "the social responsibility of business is to increase its profits."

The issue of whether businesses should promote corporate social responsibility (CSR) is hotly debated. Many of the world's biggest companies (including BP and the now defunct Enron) have embraced the notion. So have politicians. Britain's 2006 Companies Act requires businesses to report on their CSR records. The United Nations has a "global compact" for CSR. But the world's Friedmanites have waged a relentless guerrilla war against the idea, denouncing it as a farrago of value-destroying nonsense.

Edelman's research gives a good overview of the state of the global battle. The world's most Friedman-friendly country is the United Arab Emirates, with 84% agreeing with his dictum: perhaps not surprising for a small, business-oriented country. Second prize goes to Japan, a country normally associated with stakeholder capitalism, but which may have tired of its model after two decades of stagnation. Sweden also scored remarkably highly, with 60% of people agreeing with Friedman. Perhaps people feel little need for CSR when the government cares for them from cradle to grave. Yet some supposedly Friedmanite bastions went wobbly, with Britain scoring 43% and Friedman's own homeland, the United States, 56%.

The world's striving nations tend to disdain CSR. The top ten Friedmanite countries include four emerging markets (India, Indonesia, Mexico and Poland) and two recently emerged ones (Singapore and South Korea). But there are important exceptions to the rule. Well-informed folk in China and Brazil almost match their peers in Germany and Italy in their enthusiasm for corporate do-gooding.

The changing face of Japanese retailing

The co-op strikes back

Jan 27th 2011 | *TOKYO* | from PRINT EDITION

Small grocery stores use Tesco tactics to beat the supermarkets

YASUNAGA KOJIMA'S grocery shop, near Tokyo's Tsukiji fish market, has been in business since his grandfather started it almost 100 years ago. He lives above it with his wife. Outside he sells Â¥99 ($1.20) bunches of bananas and other fruit, undercutting even the discount convenience store across the street, which sells everything at Â¥105.

His customers, many of them pensioners, cherish such bargains. They come in, on average, twice every three days, and buy just enough to put together a few meals. Some economists consider such stores an anachronism, and blame small retailers for the meagre productivity of Japan's service sector. But Mr Kojima's store is no culprit. It is part of a 1,800-strong community of local co-operative stores harnessing the latest technology to win a retail war against the supermarkets.

The stores are part of a voluntary grocery club called Zen Nippon Shokuhin, which since 1962 has acted as a wholesaler to its "mom-and-pop" members. Zen Nippon does not simply buy and distribute goods. It also collects consumer data from its members, which it analyses to guide them as to what their customers prefer.

One of its models is Tesco, Britain's biggest supermarket chain-which, ironically, is often accused of fatally undercutting independent local shops on its home turf. In 2009 Zen Nippon's president, Mitsuhiro Saito, sent six employees to Oxford to learn about Tesco's loyalty-card scheme. They were interested in how the firm uses data derived from the cards to understand not only what people are buying, but also how changes in lifestyle can affect shopping habits.

Peter Wray, a British retail consultant who advised Zen Nippon on Tesco's loyalty system, says its approach sets it apart from the co-op industry internationally, which tends to analyse only what it sells wholesale. Since September Zen Nippon has used technology from an Israeli firm, Retalix, to introduce loyalty cards for shoppers that offer them electronic

discounts on their most-purchased items. The information derived from this scheme enables Zen Nippon to bargain with brands for better deals. The programme started with 100 shops and will be rolled out to 1,000 by 2012. The Tsukiji store hopes to take part. Mr Kojima says that, with food prices rising, he wants to give his customers even more personal treatment.

In one sense, this is all a bit circular. As Mr Wray puts it, Tesco mines its loyalty data to help it deliver to shoppers the personal attention they used to expect from a local store. In Zen Nippon's case, the local store will use data to make itself even friendlier.

But in Japan it is a pioneering effort. In contrast to the high-tech nature of much of the rest of the economy, Japan's supermarkets are technophobic and expect little change in shopping habits. This is myopic, Mr Saito believes, adding that one of the biggest supermarkets recently approached him for advice.

Thanks to the new approach, Mr Saito says sales were Â¥100 billion last year, a 20% rise from the doldrums six years ago that forced him to rethink his business. That performance is particularly impressive in a deflationary economy. On January 25th the Japan Chain Stores Association said that supermarket sales in 2010 fell for the 14th year in a row.

For all the sophisticated number-crunching that his firm undertakes, Mr Saito still shares the "us-against-them" mentality of small grocers everywhere. He chuckles: "If there are any small stores left in Britain, we'd be happy to help them."

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The coal boom

Burning ambitions

Jan 27th 2011 | from PRINT EDITION

What is good news for miners is bad news for the environment

IN RICH countries, where people worry about air quality and debate ways of pricing carbon emissions, coal is deeply unfashionable. Elsewhere demand for the dirty rocks has never been stronger. The International Energy Agency (IEA) reckons world consumption will increase by a fifth over the next 25 years, assuming governments stick to their current climate-change policies. A new age of coal is upon us.

The IEA estimates that China, which generates more than 70% of its electricity with coal, will build 600 gigawatts (GW) of coal-fired power capacity in the next quarter-century-as much as is currently generated with coal in America, Japan and the European Union put together. Nomura, a Japanese bank, thinks that may be an underestimate. It reckons China will add some 500GW of coal-fired power by as early as 2015, and will more than double its current generating capacity by 2020. It expects Indian coal-fired power generation to grow too-though more slowly.



Even developing countries with vast quantities of coal under home soil will find themselves unable to dig it out quickly enough to meet demand. China, the world's biggest coal producer by some distance, has turned to foreign suppliers over the past couple of years and is likely to rely on them even more in future. Its voracious appetite for energy and steel means it will need at least 5-7% more coal each year. Citigroup reckons China will import 233m tonnes in 2011. As Daniel Brebner of Deutsche Bank points out, that is considerably more than the annual capacity of Richards Bay in South Africa or Newcastle in Australia, the world's biggest coal ports.

Domestic supply has failed to keep up with demand for several reasons. China's coal is located in the north and west of the country, far from the coastal cities where energy demand is growing strongly. And China's mines are old. The coal is deep underground and expensive to extract. Congested railways and roads mean domestic deliveries can be less reliable and pricier than the imported sort. Production has also been hit by government attempts to close inefficient (and dangerous) smaller mines and encourage consolidation.

China's efforts to improve coal supplies include the building of a new east-west passenger railway line, set to open in 2013, which should free existing tracks for coal transport. New high-speed and light railways across the country may alleviate bottlenecks further. But for the foreseeable future the country will depend on ships laden with foreign coal.

India is even less capable of increasing coal production. Much of its impressive reserves sit under protected forests or land set aside for ethnic minorities. The country's creaking railways make it hard to move the stuff, as does the absence of a mechanism to negotiate bulk rail contracts. And Indian coal is generally of poor quality, which makes it unsuited to newer, more efficient, coal-fired power stations. India could become the world's biggest thermal coal importer by 2015. It is already largely dependent on imports of coking coal, used to make steel.

All this is good news for the mining industry. Nomura reckons that thermal coal will hit a peak price of $170 a tonne in 2012 compared with $110 now. Asian firms will benefit most. Indonesia is now the biggest source of imports to China because of its proximity to the country and the high quality of its coal (see article). Indonesia has few proven reserves, but high prices may well spur further exploration. Mongolia, which is also handily close to China, and Mozambique could join Australia, South Africa and Colombia as big exporters.

The coal boom has spurred a sackful of deals. The industry produced a record number of mergers and acquisitions last year, with a value of $52 billion, according to Dealogic, a financial-information firm. Rio Tinto, a global mining giant, has offered A$3.9 billion for Riversdale, which has mines in Mozambique. Chinese state-backed firms are also investing abroad. Yanzhou's $3.5 billion purchase of Australia's Felix Resources in 2009 is the biggest such deal so far.

Two potential giants may yet weigh in. America, the world's second-biggest coal producer after China, has mammoth reserves and a power industry that is turning against coal (currently responsible for almost half of domestic electricity generation). Environmental regulations and cheap shale gas will leave miners looking for new markets overseas. Russia, with vast coal reserves thousands of miles from the nearest port, might yet build the infrastructure needed to send its coal to the world market.

This boon for miners bodes ill for the environment. The power stations frantically being built in China to feed the country's new electricity grid will be relatively efficient and thus less polluting than older coal plants around the world. But that is a rather low bar. Coal is the filthiest fossil fuel and is cheap only because its dirtiness isn't included in the bill.

Indeed, the coal boom blows yet another hole in the effort to restrain greenhouse-gas emissions. The Kyoto protocol makes countries responsible only for their own direct emissions. As environmentalists point out, rich countries that spurn coal-fired power while exporting the rocks to countries with less ambitious emissions targets are merely shifting the problem around the globe. Even China's modest hopes of bringing its share of coal-fired power down to 63% by 2015 sit ill with its growing dependence on coal. Alongside coal-fired power stations and coal exports, a coal conundrum is growing.

Coal in Indonesia

Two dynasties, several pits

Jan 27th 2011 | *JAKARTA* | from PRINT EDITION

Messrs Rothschild and Bakrie team up to dig coal



I've got a deal for you

COAL is so popular that it makes for odd bedfellows. In November Nat Rothschild, a member of a prominent European banking dynasty, announced a tie-up with one of South-East Asia's most controversial tycoons. Aburizal Bakrie (pictured) is the patriarch of a scrum of companies with interests in everything from agriculture to shipping. He is also a powerful politician who may well run for Indonesia's presidency in 2014.

Indonesia is the world's largest exporter of thermal coal. The Bakrie Group controls some of its choicest mines. Since these are conveniently located a shortish sea trip from the ravenous power plants of China and India, they are tempting to investors.

Vallar, a London-listed investment firm founded by Mr Rothschild, is to acquire stakes in two Bakrie-associated coal firms. The deal is complex: it involves a reverse takeover of Vallar by a Bakrie holding company and another Indonesian firm, Recapital Advisors, using cash and share swaps valued at $3 billion. The British firm will hold a 25% stake in Bumi Resources, Indonesia's largest coal producer, and 75% of Berau Coal, the fifth-largest. Vallar will change its name to Bumi plc. Its chief executive and chief financial officer will be Bakrie appointees.

For Mr Bakrie, the deal provides prestige and access to global capital. His firms are indebted-so much so that the credit crunch of 2008 is thought nearly to have crushed them. Bumi's outstanding debt is $3.8 billion, says Dileep Srivastava, a company official. The plan is that the new firm will eventually be large enough to join the FTSE-100 index, triggering a flurry of investment by index funds.

Mr Rothschild and his co-investors gain access to heaps of coal and a web of connections. Mr Bakrie is the chairman of Golkar, a big political party, and is an important ally of Indonesia's president, Susilo Bambang Yudhoyono. Even if Mr Bakrie fails, as he probably will, to become Indonesia's next president, he and his party are likely to remain a strong influence on the government.

But Mr Bakrie is not universally loved in his homeland. He prospered under Suharto, the corrupt autocrat who ruled from 1967 to 1998. More recently, his firms have fought allegations of underpaying taxes. And a mud volcano that erupted in East Java in 2006, burying 14,000 homes, was blamed on a Bakrie oil and gas firm drilling nearby. (At the time, Mr. Bakrie was the minister for social welfare.) Mr Rothschild should prepare for a bumpy mix of politics and business.

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Schumpeter

The crescent and the company

Jan 27th 2011 | from PRINT EDITION

A scholar asks some profound questions about why the Middle East fell behind the West



IN 2002 a group of Arab scholars produced a brave report, under the auspices of the United Nations, on the Arab world's twin deficits, in freedom and knowledge. A salutary debate ensued. Now Timur Kuran, a Turkish-American economist based at Duke University, has written an equally brave book on "how Islamic law held back the Middle East". One can only hope that the result will be an equally salutary debate.

For most of its history the Middle East was just as dynamic as Europe. The great bazaars of Baghdad and Istanbul were full of fortune-seekers from hither and yon. Muslim merchants carried their faith to the far corners of the world. In the 1770s Edward Gibbon had little difficulty imagining Islamic theology being taught in Oxford and across Britain-if only the battle of Tours-Poitiers in 732 had turned out differently.

But even before Gibbon the balance of power had shifted. Angus Maddison has calculated that in the year 1000 the Middle East's share of the world's gross domestic product was larger than Europe's-10% compared with 9%. By 1700 the Middle East's share had fallen to just 2% and Europe's had risen to 22%.

The standard explanations for this decline are all unsatisfactory. One is that the spirit of Islam is hostile to commerce. But if anything Islamic scripture is more pro-business than Christian texts. Muhammad was a merchant, and the Koran is full

of praise for commerce. A second explanation is that Islam bans usury. But so do the Torah and the Bible. A third-popular in the Islamic world-is that Muslims were victims of Western imperialism. But why did a once-mighty civilisation succumb to the West?

In "The Long Divergence" Mr Kuran advances a more plausible reason. The Middle East fell behind the West because it failed to produce commercial institutions-most notably joint-stock companies-that were capable of mobilising large quantities of productive resources and enduring over time.

Europeans inherited the idea of the corporation from Roman law. Using it as a base, they also experimented with ever more complicated partnerships. By 1470 the house of the Medicis had a permanent staff of 57 spread across eight European cities. The Islamic world failed to produce similar innovations. Under the prevailing "law of partnerships", businesses could be dissolved at the whim of a single partner. The combination of generous inheritance laws and the practice of polygamy meant that wealth was dispersed among numerous claimants.

None of this mattered when business was simple. But the West's advantage grew as it became more complicated. Whereas business institutions in the Islamic world remained atomised, the West developed ever more resilient corporations-limited liability became widely available in the mid-19th century-as well as a penumbra of technologies such as double-entry book-keeping and stockmarkets.

How much does this matter for modern business? From the late 19th century onwards Middle Eastern politicians borrowed Western institutions in order to boost economic growth. In the 1920s Ataturk introduced a thoroughly secular legal system in Turkey. Today the Islamic world boasts muscular companies and hectic stockmarkets (the market capitalisation of the region's three biggest countries, Turkey, Egypt and Iran, doubled between 2003 and 2008). Dubai is laying out a red carpet for the world's companies. Turkey is growing much faster than Greece.

Yet the "long divergence" continues to shape the region's business climate. Most obviously, the Middle East has a lot of catching up to do. Income per head is still only 28% of the European and American average. More than half the region's firms say limited access to electricity, telecoms and transport is a problem for business. The figure in Europe is less than a quarter.

There are more subtle echoes. Business across the region remains intertwined with the state while the wider commercial society is weak. The Global Entrepreneurship Monitor suggests that rates of entrepreneurship are particularly low in the Middle East and north Africa. Transparency International's corruption-perceptions index suggests that corruption is rife: in 2010, on a scale from one (the worst) to ten, Western Europe's five most populous countries received an average score of 6.5, whereas the three most populous countries in the Middle East averaged 3.2 (Turkey scored 4.4, Egypt 3.1 and Iran 2.2).

Culture's long shadow

The "long divergence" also helps to explain some of the Islamist rage against capitalism. Traditional societies of all kinds have been uncomfortable with corporations which, according to Edward Thurlow, an 18th-century British jurist, have "neither bodies to be punished, nor souls to be condemned". But that unhappiness has been particularly marked in the Middle East. Corporations and other capitalist institutions were imported by progressive governments that believed the region faced a choice between Mecca and modernisation. Local businesses-particularly capital-intensive ones such as transport and manufacturing-were dominated by Jews and Christians who were allowed to opt out of Islamic law.

Mr Kuran's arguments have broad implications for the debate about how to foster economic development. He demonstrates that the West's long ascendancy was rooted in its ability to develop institutions that combined labour and capital in imaginative new ways. The Protestant work ethic and the scientific revolution no doubt mattered. But they may have mattered less than previously thought. People who want to ensure that economic development puts down deep roots in emerging societies would be well advised to create the institutional environment in which Thurlow's soulless institutions can flourish.

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Mobile services in poor countries

Not just talk

Jan 27th 2011 | from PRINT EDITION

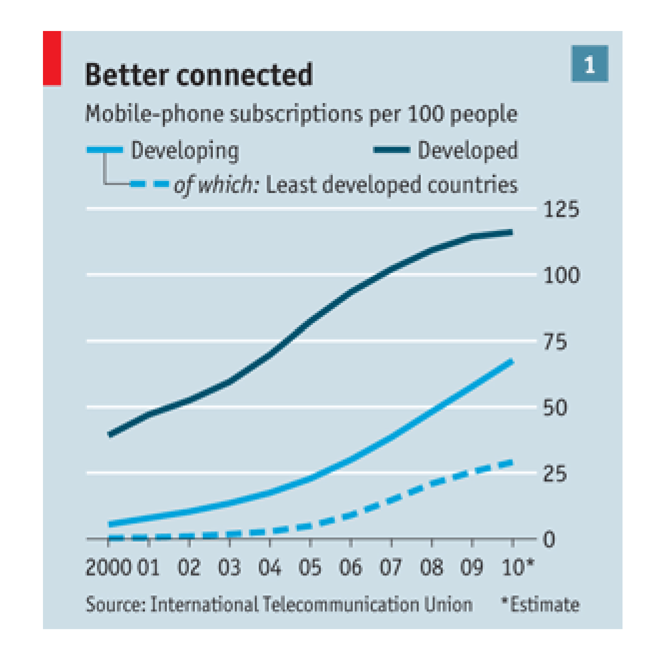
Clever services on cheap mobile phones make a powerful combination-especially in poor countries



COUNTERFEIT drugs can make up around a quarter of all those sold in poor countries, according to some estimates. They provide a lucrative and lethal business, against which most consumers are powerless. "If your anti-malaria pill is made of any old white powder, you may not survive," says Bright Simons, one of the founders of mPedigree, an advocacy group from Ghana.

Mr Simons is not just fighting with words. Late last year mPedigree launched a mobile service in Ghana and Nigeria that could make a dent in the fake-drug trade. People buying medicine scratch off a panel attached to the packaging. This reveals a code, which they can text to a computer system that looks it up in a database. Seconds later comes a reply saying whether the drug is genuine. The service is paid for by pharmaceutical companies that want to thwart the counterfeiters. Hewlett-Packard runs the computer system and found a cheap way to print the scratch-off labels.

This is just one of many such services mushrooming in poor countries, using mobile-phone technology that once carried only humble voice and text messages. Rohan Samarajiva, the boss of LIRNEasia, a think-tank in Sri Lanka, calls it "more than mobile". Jussi Hinkkanen, Nokia's head of policy in Africa, says the mobile revolution is moving "from ear to hand".



The number of users is still small: even among young people in South-East Asia (a tech-friendly lot) only 8% had used "more-than-voice" services, according to a poll by LIRNEasia. But the potential is exciting. Mobile phones are the world's most widely distributed computers. Even in poor countries about two-thirds of people have access to one (see chart 1). As a result, such devices and their networks, though mainly still much simpler than in the rich world, have become a platform on which many other services can be built. This boosts innovation-just as smartphones and faster wireless data networks have led to an explosion of mobile applications ("apps").

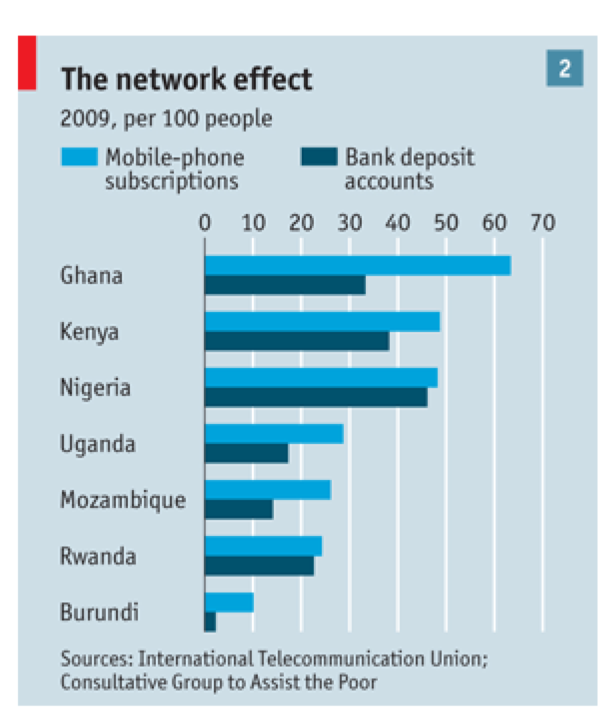
Classifying mobile services in poor countries is not an exact science. Richard Heeks, director of the Centre of Development Informatics at the University of Manchester, sorts them by their impact on development. One category is services that "connect the excluded". In their simplest form they provide information to those who would otherwise be out of the loop. Farmer's Friend in Uganda, for instance, sends out market prices and other agricultural information in text messages.

Such services have been around for some time, but they have become more common-and much more varied. Nokia now provides its Ovi Life Tools, a set of information services from weather to sport, to more than 6m users of its handsets in China, India, Indonesia and Nigeria. Esoko, a Ghanaian "communication platform", in the words of Mark Davies, its founder, allows two-way communication: people and businesses in 15 African countries can upload their own market or other data, which then become accessible via the internet and mobile phones.

Mobile trading platforms are also in this category. At first most of them focused on agricultural goods: Dialog Tradenet in Sri Lanka lets farmers check market prices and text in offers, helping them to time their harvest to maximise income. But many, including Dialog Tradenet, have other things on offer. In India, Babajob.com lists low-skilled jobs. The most popular items on CellBazaar in Bangladesh are second-hand mobile phones. For people with some cash to spare, KenyaBUZZ, one of the larger local websites in east Africa, is selling tickets for cultural and sports events over the phone.

Mobile phones can also spread learning. In Bangladesh the BBC World Service Trust sponsors a service called BBC Janala that allows people on a few dollars a day to improve their English. After dialling "3000", they can listen to hundreds of English lessons and quizzes, updated weekly. Mobile operators charge about two cents for each three-minute lesson. Since BBC Janala was launched in November 2009, 3.1m people have used it.

Researchers in South Africa working for SAP, a software giant, are trying to connect very small businesses, which make up a large part of Africa's economy. One service lets craftsmen create a virtual job docket with a few texts or touches on a smartphone, even without mobile-network coverage. The information is uploaded to a computer system later. Another allows rural stores to order goods, saving time-consuming trips to city markets.



A second category of services includes those that cut out the middleman, or at least keep tabs on him. This is especially helpful in using government services. In the Indian state of Karnataka, corrupt officials would often demand a bribe before issuing landownership certificates, which farmers need, for instance, to obtain a loan. The Bhoomi project helps them directly, by using the internet and mobile phones.

Disintermediation is also made possible by mobile money. Services to transfer cash by text message have been around for some years. One of the most successful, M-PESA, began in 2007 in Kenya, where it now has more than 13m users. It is now used for salaries, bills, donations: few things cannot be paid for via a handset. Similar services can be found in more than 40 countries. Though not yet on the same scale, this seems to be only a question of time: in most countries in sub-Saharan Africa, more people have a mobile phone than a bank account (see chart 2).

Other firms are extending the reach of mobile money. Software developed by Tagattitude, a French start-up, uses a handset's sound channel to transmit money and will be used by several banks in Africa. A Little World, an Indian firm, has combined several pieces of technology to create a "branchless microbanking system" to allow people in remote areas to withdraw cash. A fingerprint reader identifies them and the sum is deducted from their accounts via a special handset. A small printer produces a receipt. The system already has more than 3m users in India. In Andhra Pradesh it directly disburses welfare payments and pensions.



Money on the move in Kenya

The sound of the crowd, texting

A third, perhaps even more promising category is "crowdvoicing". Ushahidi, founded by a group of activists in Kenya, is among its pioneers. After the country's disputed elections in 2008, Ushahidi (which means "testimony" in Swahili) mapped reports about violence, most of them text messages, on a website. Now the organisation offers software and even a web-based service to monitor anything from elections to natural disasters. Similarly, text-messaging software called FrontlineSMS collects and broadcasts information.

Such techniques are increasingly applied in other areas, particularly health. Stop Stock-outs, another African group, has used Ushahidi to map where essential medicines are sold out. By checking whether a drug is genuine, users of mPedigree and another Ghanaian service called Sproxil provide real-time data about which illnesses are on the rise (and can be sent more information as needed). In Mali a company called Pesinet gets agents to send in the weight of newborn babies. If the figure falls below a certain level, the baby is examined more closely.

Then there is txteagle, which hopes to reward those willing to perform small jobs on a mobile phone. Its founder, Nathan Eagle, discovered that nurses in Kenya were much likelier to text in the stock levels at their blood banks if they were compensated with a bit of airtime. This got him thinking about whether other tasks could be "crowdsourced" in this way. Today firms use txteagle for translating words into a local dialect and checking street signs for a satellite-navigation service. Mr Eagle hopes that the service will spread far, in particular to Asia.

A fourth and last category hardly exists yet, but could prove the most important, says Mr Heeks: platforms that allow the world's poor to "appropriate the technology and start applying it in new ways". One small example is "beeping": hanging up after a single ring. First used to signal that someone wants to be called back because of lack of credit, it has become a free messaging system. In some countries, street hawkers assign special ringtones to different customers, which are in effect free messages placing orders.

In rich countries, online stores for smartphone apps gave digital innovation a boost. LIRNEasia's Mr Samarajiva hopes that something similar will happen in the poor world. An early example is AppZone in Sri Lanka. It allows developers to create, test and sell applications, while operators promote them to their customers.

The list will certainly get longer. Whether such services will be commercial successes is another question. Having looked at 400 mobile businesses, the Monitor Group, a consultancy, concludes that too many are dependent on donor money. Social entrepreneurship often muddles demand and need, says Jan Schwier of Monitor. The fact that an African smallholder needs prices for his crops on his mobile does not mean he will pay for them.

Not many services are set up to grow, says Brooke Partridge of Vital Wave Consulting, which advises businesses in emerging markets. Providers lack technology, money and market knowledge. "We don't need more new services, but a better focus on commercialisation," she says.

For others bureaucracy, taxation and bad regulation are the obstacles. In many African countries providers of new mobile services cannot deal with network operators directly, but must use intermediaries to get, for instance, a short code for customers to dial. Governments also use mobile networks as cash cows. A study in 2008 by the GSM Association, an industry group, found that the ratio of mobile-related tax to operators' revenues in sub-Saharan Africa was 30%. Today the share is probably even higher. And regulators often limit competition, for instance by failing to license radio spectrum to new entrants. All this means that mobile communications are more expensive than they need be. "Price remains the major barrier to the growth of mobile entrepreneurship in Africa," says Steve Song, a telecoms expert at the Shuttleworth Foundation, a think-tank in South Africa.

Talk of a "Development 2.0"-meaning a mobile-driven transformation of how poor countries develop-thus seems premature. But the potential of mobile services should not be underestimated. If they take off, they could transform lives and livelihoods, not just by connecting the world's poor to the infrastructure of the digital economy, but by allowing them to become digital producers and innovators.

Fanciful? Maybe, but sceptics said the same about the potential of mobile phones in poor countries a decade ago. Just think what would be possible if smartphones and even tablet computers become as cheap and common in poor countries as mobile phones are today.

British banks

Vickers in a twist

Jan 27th 2011 | from PRINT EDITION

In a febrile atmosphere, Britain's banking commission grapples with the country's giant banks



BRITAIN, home of five of the world's 30 biggest banks by value, once considered itself a laboratory of financial regulation. But the home of light-touch supervision now fancies itself as the abattoir of too-big-to-fail finance. The rest of the world may have decided that the least-bad banking system involves big, diversified firms, tightly policed, with more capital and less debt than before. In Britain it is common to hear that banks should be sliced in half, nationalised, deprived of any state influence or abolished. With the country's economy shrinking again, rage towards banks shows no sign of abating.

This is the backdrop to the Vickers commission, a government-appointed body that is reviewing the industry. It will make an interim report in April and a final one in September, but on January 22nd its chairman, Sir John Vickers, dropped some big hints. Banks, he said, might have to ringfence their retail operations, as well as carry more capital than new global rules require. The headlines duly crowed that banks were being broken up, while ministers hinted that Britain alone had the brains and guts to tackle big finance.

Those snap judgments are about as reliable as the credit rating on a mortgage-backed security. For the Vickers commission appears neither that naive nor lazy. It has taken 1,500 pages of submissions, mainly from the banks, and held hundreds of meetings with them, investors and other parties. Its five commissioners have supped with the devil by spending a day at each of Britain's big firms, and even, in an act of supreme devotion, held a public hearing in Cardiff.

The bankers who have been grilled by the body are grudgingly complimentary. They describe two commissioners, Sir John, a noted economist, and Martin Taylor, a brainy former boss of Barclays turned bank critic, as being sharp but non-committal. Two others, Martin Wolf, the *Financial Times*' chief economics rottweiler, and Clare Spottiswoode, a former utility regulator, are said to be more provocative but not yet obviously wedded to any position. The fifth member, Bill Winters, once of JPMorgan, will, the banks hope, keep the committee in the real world. For all that, though, there is no guarantee that all the commissioners will in the end agree.

Is the big idea in Sir John's speech-ringfencing-a breakthrough? The thinking is that the bits of the banks that lend to and take deposits from British households and small businesses need special protection, by being financially and legally separate from the rest of the firm. The importance of these activities is clear, but even advocates of ringfencing accept it is not a magic cure that will get taxpayers off the hook.

For a start, the bits that are ringfenced may be dangerous. Some 75% of the gross losses at Britain's big banks came from loans, not trading by investment bankers. Most of the bailed-out firms, including HBOS, Lloyds (which then bought HBOS) and Northern Rock, did not own investment banks. Globally, some of the safest firms during the crisis did.

And it may still be impossible to ignore what happens outside the security cordon. As Lehman Brothers showed, a dying investment bank can destabilise the entire system. Perhaps retail banks could be hermetically sealed from such chaos. But over-indebted Britain is a poor prospect in this regard. In aggregate, its retail banks lend out more than they gather in deposits, making them reliant on wholesale funding from the wider financial system.

What's more, ringfencing implies that the overseas activities of Britain's banks will be allowed to fry. That would breach one of the few intact rules of global finance, that banks never let foreign subsidiaries fail. So, for example, HSBC backed

its doomed American unit and no big bank has yet abandoned its operations in rickety economies in eastern or southern Europe. Observing this rule is not just about manners. Other countries could reciprocate by refusing to bail out the British arms of their banks. If Britons didn't like dealing with the woes of Royal Bank of Scotland, they might enjoy a disorderly collapse of Citigroup's London operation even less.

What then, is the Vickers commission on about? One hope is that ringfencing will stop the subsidy that investment banks get by piggybacking on retail banks' state-underwritten balance-sheets. But this is hardly assured, since if investment banks were still deemed too important to fail, they would still be offered artificially cheap funding. Segregation, if achieved, could be expensive-one bank reckons it would cost it pound5 billion a year. The commissioners must assess how much of this is from a loss of real efficiencies that banks get from being unified, and how much is from the elimination of a subsidy-a tricky question. The bankers are relieved it is at least being asked. "They are cost-sensitive," says one, of the commissioners.

Ringfencing could also be an aspirational statement about how the global banking system should evolve. Today a country is responsible for the global activities of banks domiciled there. Tomorrow, perhaps, countries could be responsible only for the local activities of any global firm active in their territory. To avoid chaos, though, national financial boundaries would need to be fixed not just by Britain, but by other countries too, a Herculean task that regulators are struggling with.

This is why the second theme of Sir John's speech-more capital-is key. Although the new Basel 3 global accords on capital adequacy are tough enough to have saved almost all banks during the crisis, a handful of firms worldwide, including HBOS, were outliers that lost far more than the average. To deal with them an extra safety buffer is needed-probably involving new types of debt that convert into equity at regulators' behest. International bodies, including the European Union and the Basel club of regulators, are working on this. Although the Vickers commission ultimately answers to an enraged British public, it may well find the solutions it seeks beyond Britain's borders.

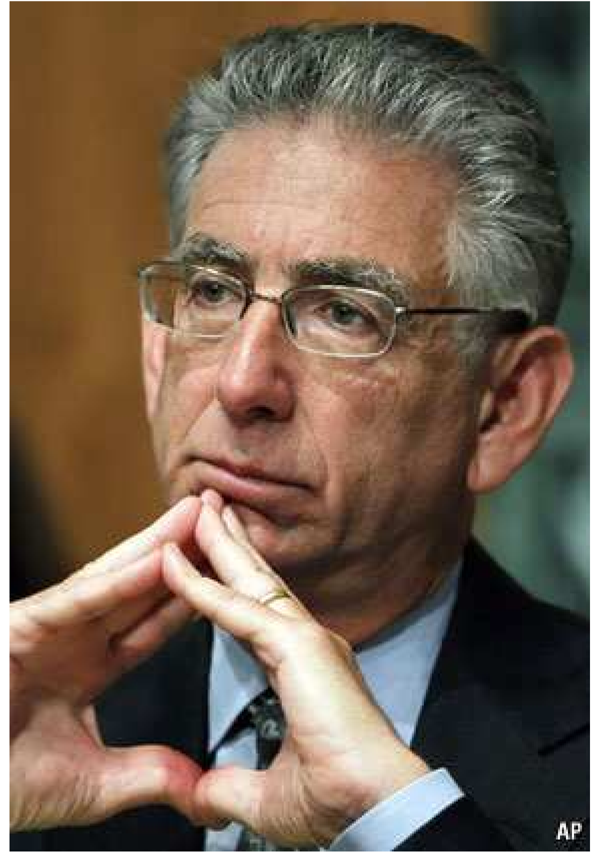
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America's financial-crisis commission

Take your pick

Jan 27th 2011 | *NEW YORK* | from PRINT EDITION

A divided panel reaches three competing conclusions



Enjoying every minute of it

IT IS not the most promising script for a whodunit. Ten experts are brought together to solve a mystery, but they can't get along and reach three different conclusions. That, sadly, is the story of America's Financial Crisis Inquiry Commission. Chaired by Phil Angelides (pictured), its report was due to be released on January 27th, after *The Economist* went to press.

The thrust of this report has long been clear. When the six Democratic and four Republican appointees began their work, there was hope they could clarify the causes of the financial crisis in the same way as the authors of the 9/11 commission's report shed light on the terrorist attacks of September 2001. But it was evident well before they had finished 19 days of public hearings and over 700 interviews that ideological spats would get in the way.

By November Republican members were moaning that the Democrats were more interested in crafting a document that would bolster their party's attacks on the new Republican majority in the House of Representatives than in revealing the truth. When a majority of the panel voted to push the report's release beyond the December 15th deadline, the four Republicans produced their own preliminary report. Then they began to fracture too.

The result is a lamentable loss of credibility and, confusingly, three competing narratives. The main report, endorsed by the Democrats, points to a broad swathe of failures but pins much of the blame on the financial industry, be it greed and sloppy risk management at banks, the predations of mortgage brokers, the spinelessness of ratings agencies or the explosive growth of securitisation and credit-default swaps. To the extent that politicians are to blame, it is for overseeing a quarter-century of deregulation that allowed Wall Street to run riot.

A dissenting report written by three of the Republicans could be characterised as the Murder on the Orient Express verdict: they all did it. Politicians, regulators, bankers and homebuyers alike grew too relaxed about leverage, helping to create a perfect financial storm. This version stresses broad economic dynamics, placing less emphasis on Wall Street villainy and deregulation than the main report does.

A firmer (and, at 43,000 words, longer) rebuttal of the report by the fourth Republican, Peter Wallison, puts the blame squarely on government policies aimed at increasing home ownership among the poor. Mr Wallison argues that the pursuit of affordable-housing goals by government and quasi-government agencies, including Fannie Mae and Freddie Mac, caused a drastic decline in loan-underwriting standards. Over 19m of the 27m subprime and other risky mortgages created in the years leading up to the crisis were bought or guaranteed by these agencies, he reckons. These were "not a cigarette butt being dropped in a tinder-dry forest" but "a gasoline truck exploding" in the middle of one, Mr Wallison says.

Mr Wallison's argument, portrayed as small-government extremism by the left, was dismissed as too narrow by his Republican peers. He was probably not alone, however, in feeling that the core report ended up being more a description of how the crisis unfolded than an explanation of why it erupted.

The commission's influence on regulatory reform was never going to be big, given that the Dodd-Frank financial-reform act was passed last summer and regulators are quite far advanced with the rule-writing that the law calls for. It may yet have an impact on some financial firms and industry figures: it has referred several cases of possible wrongdoing to the Justice Department. But few expect these to spawn serious charges. Though there have been numerous civil-fraud trials and settlements in the wake of the crisis, prosecutors have struggled to put together criminal cases.

It was far-fetched to think that this supposedly bipartisan panel would provide the last word on the crisis. Still, a bit more coherence would have been nice. As one member puts it: "The story will be the differences between us, not what we discovered. That's a great shame."

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Private equity

Public exposure

Jan 27th 2011 | *NEW YORK* | from PRINT EDITION

Companies owned by buy-out firms are starting to go public again

NIELSEN, a firm that tracks what people watch on television, has been the one under observation lately. In 2006 six private-equity firms, including Blackstone, the Carlyle Group and Kohlberg Kravis Roberts, bought Nielsen for almost $11 billion in one of the largest leveraged buy-outs on record. Since then observers have questioned how the buyers would sell their boom-era investment, given the shakiness of the stockmarket. But on January 26th Nielsen made its debut on the New York Stock Exchange in a $1.6 billion initial public offering (IPO)-the largest by a private-equity firm in more than four years.

The shares were priced higher than their sponsors had proposed, and finished up 8.7% on their first day of trading. Nielsen's owners weren't the only ones giddy about the IPO's reception. Other private-equity firms have been watching it closely, as a test of the prospects for lots of leveraged buy-outs whose owners hope to take them public this year. Many companies owned by private-equity firms have put off their plans to list because of the wobbly equity markets of recent years. For example, last year Merlin Entertainment, a British amusement-park operator owned by Blackstone, and Fairfield Energy, an energy firm belonging to a consortium led by Warburg Pincus, both shelved offerings.

Now there is a queue of private-equity-owned firms waiting to go public. Thomson Reuters, a research firm, reckons 39 of them have filed for IPOs in the United States, including some of the most high-profile leveraged buy-outs from private equity's heyday. HCA, a health-care company that a group of private-equity firms bought for nearly $33 billion in 2006, is expected to raise $4.6 billion in an IPO this year. Kinder Morgan, an energy company that sold for $22 billion in 2006, will try to raise $1.5 billion.

Buy-out firms that go ahead with listings this year are likely to be prudent with the money they raise. Many of the firms they want to float have high levels of leverage, and their owners will need to use the proceeds to reduce it. Nielsen's owners, for example, are planning to use most of the money they raise through the IPO to lower the company's debt, which stood at nearly $8.6 billion in September. They are taking only around $103m for themselves.

However, some private-equity firms are under pressure to squeeze more money out of their investments, and quickly. Doug Warner of Weil, Gotshal & Manges, a law firm, says this is because these firms are starting new funds and seeking fresh money from their investors, and thus need to show them that their previous contributions have earned attractive returns.

Many buy-out firms have been finding other ways to get cash out of the businesses they own, while they have been waiting to list them. Last year dividend recapitalisations, in which private-equity firms put more debt into a company and take out equity for themselves, reached $15.4 billion, surpassing a 2006 peak of $14 billion, according to Standard & Poor's Leveraged Commentary & Data, a research firm.

Although Nielsen's successful IPO may ease private-equity firms' anxieties about managing a good exit on their own investments, there is still plenty to worry about. Not least, any number of economic or financial woes might prompt a plunge in share prices, forcing them to put their planned IPOs back on hold, or suffer lower returns. A fresh batch of private-equity IPOs would be a very public examination of how far buy-out firms have transformed the companies they purchased. Investors will decide whether the returns achieved through the buy-out process justify the costs, and the risks, involved.

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Buttonwood

In debt to Grandpa

Jan 27th 2011 | from PRINT EDITION

The close ties between governments and pension funds



SOMETIMES the financial system can appear like one of those Escher drawings in which water flows simultaneously uphill and downhill. Governments rescued banks from the threat of failure in 2008, but banks are also big buyers of government bonds-so much so that a sovereign default in Europe might cause a banking crisis. Who is supporting whom?

The same question can be asked of pension funds. European countries would struggle to fund themselves without demand from the pensions industry. A survey by Mercer, an actuarial consultancy, suggests that around half the assets of continental European funds are invested in government bonds. Yet governments also stand behind their domestic pension funds.

The commitment is explicit in the case of public-sector schemes. But in America and Britain there is surely implicit backing for the insurance funds (respectively the Pension Benefit Guaranty Corporation and the Pension Protection Fund) that backstop the private sector's schemes. It is hard to imagine politicians standing idly by if pensioners were at risk of losing their benefits.

An example of this tangled relationship can be seen in the efforts of individual American states to deal with budget shortfalls. Some states are launching special bond issues to get the funds needed to finance their pension contributions. And who are likely to be significant buyers of those bonds? State pension funds.

The relationship between governments and pension funds seems to grow ever closer. In the 1980s and 1990s the cult of equity lured many funds into a heavy stockmarket weighting. That left them horribly exposed to the two bear markets of the current millennium.

Meanwhile, accounting standards have forced company pension schemes to discount their liabilities using a corporate-bond yield. Not everyone is a fan of this accounting approach, though it has a sound theoretical basis. A pension promise is a bond-like liability in that it obliges the scheme to pay out a steady stream of cash well into the future. Companies can "offload" their pension schemes by asking insurance companies to assume the burden on their behalf; the cost of doing so varies with government-bond yields. The requirement to value pension liabilities in this way has made corporate balance-sheets more volatile, and encouraged finance directors to try to reduce their risk.

The result has been that many companies have adopted a "liability-driven" approach, in which they buy government bonds (or use related derivatives) so that the funding level closely matches the cost of paying the benefits. But the problem with this is that it looks expensive in the short term. Pension schemes that invest in equities can assume higher returns from their portfolio over the long run, which allows the corporate sponsor to make lower contributions. Buying bonds means that the returns are likely to be lower, and thus the contributions must be higher.

In the face of this increased cost many companies have decided to pull the plug, closing their schemes to new members and, in some cases, to existing employees. Final-salary pensions are now largely a perk for government workers, perhaps because public-sector schemes are not usually subject to the same accounting regime as their private-sector counterparts.

By itself, the closure of schemes to new members makes a pension fund more "mature", in the sense that the focus switches to paying benefits to retirees rather than investing contributions for the long-term. This reinforces the tendency to invest in bonds rather than equities.

The process has some rather bizarre implications. What happens if governments default on their bonds, or inflate away the debts, rather than put their voters through the years of austerity required to pay them down? The result would be huge shortfalls in domestic pension funds. It won't only be champagne-swilling fund managers that lose out should a country default, but the nation's retirees, a key group of voters.

The rationale behind private-sector pensions is to reduce the burden on governments of an ageing population. Yet if private funds are invested mainly in government bonds, then pension promises end up being a claim on future taxpayers all the same. This may merely reflect reality. Pension benefits, whether funded or unfunded, are a postdated cheque on the income of future workers. When the number of workers falls relative to the number of retirees, it creates a problem that accounting conventions and clever asset allocations cannot disguise.

Economist.com/blogs/buttonwood

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Chinese banks in America

Hu's coup

Jan 27th 2011 | *HONG KONG* | from PRINT EDITION

Why a tiny deal by a Chinese bank in America matters

THE price is so trivial it will not have a discernible impact on the buyer, ICBC, the Chinese bank that is the world's biggest by value. By the time the acquisition is approved, it may well have been forgotten by most outsiders. And yet, it could be a transformative deal whose full implications will take years to emerge.

Almost lost amid the many transactions signed on January 21st to coincide with the visit of China's President Hu Jintao to America was an agreement by ICBC to buy 80% of the Bank of East Asia's small, almost profitless, retail-branch network in New York and California for $140m. If approved, the transaction would be significant because for the first time a Chinese mainland bank would have activities operating under America's regulatory framework. But its importance goes beyond that. A tick in the box by American regulators, expected by the end of the year, would mean that they have endorsed the soundness of China's government-controlled and politically directed banking system. That has been a barrier to Chinese banks expanding in America.

In recent years American supervisors have stopped short of granting full approval for Chinese firms, instead allowing them only to provide wholesale services to companies. Even then, in at least one case, supervisors have insisted that the permit be contingent on further improvements in the Chinese firm's operating procedures. A licence for a retail operation must pass a higher threshold since local branches will be covered by America's deposit-insurance umbrella.

That, in turn, involves approving not only the operations of the bank that is entering America but also its home regulator, to ensure it is shipshape-in the jargon, that it can provide "consolidated comprehensive supervision". In theory, the Federal Reserve's examiners will now need access to the operations not only of China's largest bank but of its regulators.

Allowing Chinese banks into America may deepen the two countries' banking links. American firms have been able to operate in China and collect deposits for several years-Citigroup is one of the largest foreign firms on the mainland. But all such operations are strictly limited and usually subdued by red tape. As a result foreign firms' market share in China has long stagnated at under 2%. Some suggest the ICBC decision may be tied to further opening to foreigners by the Chinese, but if so this quid pro quo will not be part of the formal regulatory framework, but part of a quiet political bargain.

Chinese banks are not about to conquer the world. ICBC, which has the most expansive instincts, has made a few small acquisitions in Asia and is expanding its network of branches elsewhere, but remains an overwhelmingly domestic outfit. The proposed deal will fit with its desire to keep a low profile. The seller, Bank of East Asia, is already foreign, being a Hong Kong-based firm with close ties to China. Since its American operations are small, with assets of only some $700m, and its client base is largely tied to Chinese businesses, the change of control is unlikely to spark any reaction from customers or competitors. Public comments are being minimised to avoid inflaming popular and political passions in America.

If the deal is approved, ICBC's subsequent role in the American market will largely depend on its ambitions. A big acquisition would place it once again before a regulatory review, and, on the basis of past experience in other industries, generate a firestorm of controversy in America. It may prefer to grow organically, since it would probably enjoy full operating rights, while its healthy profits give it the resources to expand at will. It should have the same legal standing as any American bank, which is to say the right to do business. Americans can hardly whinge that the biggest bank from the world's second-biggest economy has a growing presence in their country. They will hope, though, that if its local operation fails, it won't have to be bailed out by Uncle Sam.

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The McFlation index

Lies, flame-grilled lies and statistics

Jan 27th 2011 | from PRINT EDITION

What do burger prices tell us about the reliability of official inflation figures?

INFLATION is creeping up around the globe. But in many countries, ordinary folk as well as investment analysts suspect that governments are fiddling the figures for political reasons, and that the true inflation rate is much higher than officially reported. Argentina's inflation rate is the hardest to swallow. According to the government, consumer prices rose by 10.9% in the year to December, but private-sector economists estimate the true increase to be at least twice as much. In China, too, many claim that the government's figures hugely understate increases in the cost of living.

Economists disagree on the best way to measure consumer-price inflation. How often should the relative weights be changed? How should one take account of quality improvements? One reason why the Chinese may think their cost of living is rising so quickly is that consumers are moving upmarket-for example, from the local dumpling stand to a restaurant. That increases households' spending, but is not inflation.

If you find the theory of price indices hard to digest, why not rely on simple burgernomics? *The Economist*'s Big Mac index was devised as a lighthearted gauge to whether currencies are under- or overvalued, but Jonathan Anderson, an economist at UBS, suggests that it can also be used to cross-check official inflation rates. Consisting of food, materials, wages and rent, the McDonald's Big Mac offers a handy consumer-price basket, whose composition has hardly changed over time.



We have compared prices late last year with those ten years earlier in a selection of countries. For example, the price of a Big Mac in China rose by an annual average of 3.7%, against the reported inflation rate of 2.3%. Is this evidence that the government is underreporting inflation? Not necessarily; the discrepancy is roughly the same as in America (see chart). One might expect burger inflation to exceed overall inflation because food prices have risen faster than other prices. Yet in Russia and Indonesia, Big Mac prices rose by a lot less than the official price index, possibly suggesting that the governments' figures overstate inflation.

However, burgernomics does support claims that Argentina's government is cooking the books. The gap between its average annual rate of burger inflation (19%) and its official rate (10%) is far bigger than in any other country. Its government deserves a good grilling.

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Global trade

A deadline for Doha

Jan 27th 2011 | from PRINT EDITION

The agonies of trying to revive free-trade talks



Still docked

LAST November marked the start of the tenth year since the epic, stamina-sapping Doha round of trade talks began. It was also when the German chancellor, Angela Merkel, and Britain's prime minister, David Cameron, joined by the heads of government of Turkey and Indonesia, asked a group of experts to work out how on earth to get a Doha deal done.

Led by Peter Sutherland, a combative former director-general of the World Trade Organisation and its predecessor body, GATT, and by a trade economist at Columbia University, Jagdish Bhagwati, the experts were due to issue a report on January 28th. That will be in the midst of the annual jamboree at Davos in Switzerland, where global bigwigs gather to chew over world affairs.

The report could cause a few attendees to choke on their *Gluhwein*. It urges its sponsors, along with the rest of the leaders of the world's big economies, formally to commit to finishing the round by the end of the year. It is far from clear how such a deadline could be made binding, but the idea is as much tactical as practical, and received backing this week from the International Chamber of Commerce.

Mr Sutherland argues that his experience during the Uruguay round of trade talks taught him that having a firm timetable is the best way to knock heads together. Those talks took a mere seven years, ending in 1994, and if it is any consolation to today's negotiators, even the WTO's official history admits that at times they "seemed doomed to fail".

That is a fate that must not befall Doha, the experts insist. They reckon that only a few more steps are needed for an agreement. Richard Baldwin of the Graduate Institute in Geneva, one of the economists in the group, argues that "Doha is a lot closer to being done than it has ever been, and than a lot of people realise."

One reason is that agricultural commodity prices are high, so in America subsidies to farmers, which are linked to world prices, have been tapered down. This means that trimming them back should be less controversial than might otherwise be the case. That could encourage Barack Obama to throw his weight behind the talks. Finishing the Doha round could also help his administration flaunt its pro-business credentials, which have been under question of late.

An emphasis on the importance of removing trade barriers in service industries, such as technology, could help to bring the agreement of big service-sector exporters, notably India. That country's reluctance to make concessions on agriculture was blamed by many for the collapse of the last serious attempt to finish the Doha round in July 2008. And the big emerging economies, the authors argue, need to remember that an umbrella trade agreement that covers almost all countries is far preferable to the idea of trying to strike scores of bilateral deals.

Some Doha doubters argue that the world economy has moved on since the round began-trade in services has become far more important, and many countries have already cut tariffs on their own-making the talks largely irrelevant. But the authors provide some convincing evidence against this view. The proposals already on the table would add $360 billion in new trade each year. They would lead to a substantial reduction in the tariffs paid. For example, the total amount of tariffs paid on manufactured goods imported into America could fall by almost 50%.

The authors do, though, admit that there are growing gaps "between 20th-century trade governance and 21st-century trade". A case in point is the growth and rising complexity of global supply chains, which means that today's protectionists are more likely to resort to targeted rules rather than tariffs; this makes trade negotiators' traditional goal of tariff-killing less relevant. But abandoning the present negotiations in favour of an entirely new round of talks with a more up-to-date agenda, as some have advocated, has even less chance of getting anywhere than the Doha effort. That is saying something.

Economics focus

Dancing elephants

Jan 27th 2011 | from PRINT EDITION

Is Indian capitalism becoming oligarchic?

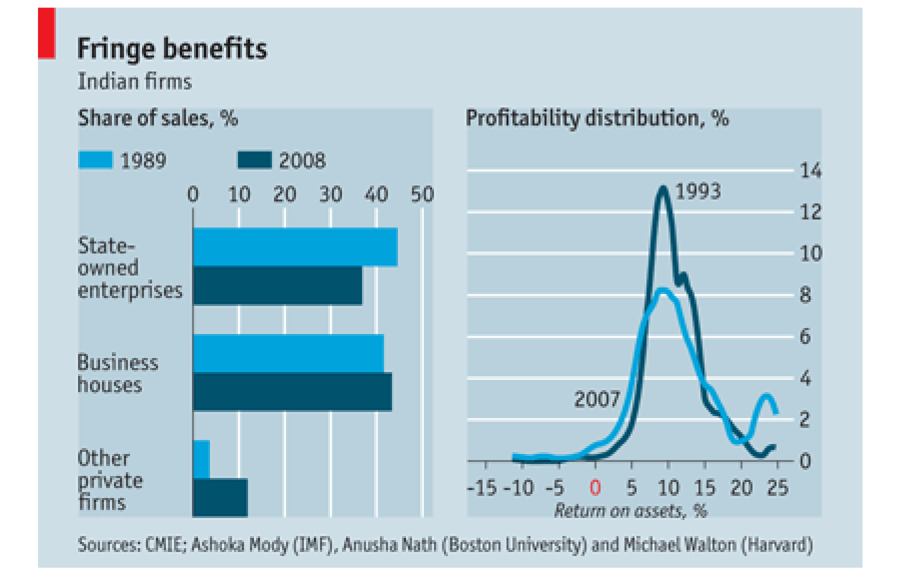
MANY Indians take justifiable pride in the rise of "India Inc". Since winning independence from the licence and permit Raj 20 years ago, Indian companies have grown in size and scope, venturing into overseas markets and snapping up foreign companies. But even as Indians celebrate the rise of their country's companies, they fret about the longer shadows those firms now cast. They worry that India's corporate titans are too firmly entrenched, and too deeply ensconced in the corridors of power.

In the telephone conversations of a corporate lobbyist, tapped by the tax authorities and leaked to the media, Indians have heard ministries described as ATM machines and the ruling party referred to as "our shop". They have read reports of companies wildly overcharging the government for the Commonwealth games and underpaying for mobile-telephone spectrum. The fear is that Indian capitalism is turning oligarchic.

Oligarchs begin as oligopolists: market power and political power tend to go hand-in-hand. Many people assume that 20 years of liberalisation has largely stripped India's corporate establishment of its market muscle. But a 2009 paper* by Laura Alfaro of Harvard Business School and Anusha Chari of the University of North Carolina at Chapel Hill documented an economy still surprisingly dominated by incumbents. The authors drew on a database kept by the Centre for Monitoring the Indian Economy, which covers every firm that files financial statements.

As the economy opened up, the database recorded the birth of thousands of new, private firms. By 2005 it contained 8,864 firms under 20 years' old, amounting to 56% of the total. But these firms' clout did not match their numbers. They accounted for only 15% of corporate assets, 17% of sales and 13% of profits. About three-quarters of the economy was still in the hands of state firms and old, private firms born before 1985.

In a new paper**, Ashoka Mody of the IMF, Anusha Nath of Boston University and Michael Walton of Harvard echo this finding. Looking at companies listed on the Bombay Stock Exchange, they find that stand-alone, private firms increased their share of sales from 1989 to 2008, largely at the expense of state firms. But state firms hung on to a 37% share and India's big family-owned conglomerates, known as business houses, actually increased theirs (see left-hand chart).



The birth-rate of new firms slowed after the mid-1990s, they find. And in India old firms seem never to die. Only four out of every 10,000 firms go bankrupt, according to the World Bank, compared with 350 in America. The oldest firm in the study by Ms Alfaro and Ms Chari is Howrah Mills Company of Kolkata. Incorporated in the 19th century, it is still spinning yarn in the 21st, despite what its parent company calls the "hurly-burly" of the marketplace. Indian capitalism has seen plenty of entry, but little exit; lots of creation, little destruction; lots of hurly, little burly.

Before liberalisation, many Indian firms enjoyed a quiet life in concentrated industries, where a coterie of licensed firms divided the market between them. We were so used to thinking that we are the best, we are a blue-chip, so the customers would have to pay our price, recalls Sudhir Trehan, managing director of Crompton Greaves, a maker of electrical appliances and power equipment. In the decade after liberalisation, Indian industry lost much of this shelter. In March 2000, for example, Crompton Greaves reported a loss of almost 1.5 billion rupees ($33m).

Between 2002 and 2007, however, the profitability of India's listed firms partially recovered. The distribution of returns also changed, becoming twin-peaked (see right-hand chart) with a fatter tail of firms enjoying returns on their assets of over 20%.

Frogs into princes

Concentration also began to increase again after 2000, at least in some industries, according to Mr Mody, Ms Nath and Mr Walton. Indeed, by their calculations, the majority of Indian firms still operate in industries that would be deemed "concentrated" by the standards of America's antitrust authorities. The severity of competition is not easy to measure, however. The number of firms in an industry tells you nothing about the new rivals that could enter if the incumbents grow complacent. As Joseph Schumpeter pointed out, competition can be a threat, even before it is an actuality. "It disciplines before it attacks. The businessman feels himself to be in a competitive situation even if he is alone in his field."

Crompton Greaves is an example. Its rivals in the decade after liberalisation were the same European and American multinationals that had long been in the country. But liberalisation allowed these firms to bring their best technologies to India-and the threat of Japanese entry into India obliged them to do so.

Mr Mody, Ms Nath and Mr Walton find that firms that win market share also reap higher profits. Perhaps they exploit their stronger market position to overcharge their customers. But the authors find otherwise. The correlation between improved profitability and increased market share is as true for small companies as for large ones. It holds for free-standing firms as well as business houses. Indeed, even in competitive, crowded industries, gains in market share and profitability go hand-in-hand.

This suggests that both stronger profits and a higher market share are the twin rewards for better performance. Corporate India "looks more like an exemplar of dynamic, competitive capitalism than of concentrated market power and economic entrenchment," the authors write.

Crompton Greaves again serves as an illustration. After Mr Trehan took charge in 2000, he cut the company's payroll from 10,500 to 5,500 in 18 months, starting with 34 directors, presidents, vice presidents and general managers. Faced with the prospect of going under, "we didn't desert the ship, we found a way to... make it float again," he says.

*"India Transformed: Insights from the Firm Level 1988-2005" (October 2009).
**"Sources of Corporate Profits in India-Business Dynamism or Advantages of Entrenchment?" (January 2011).

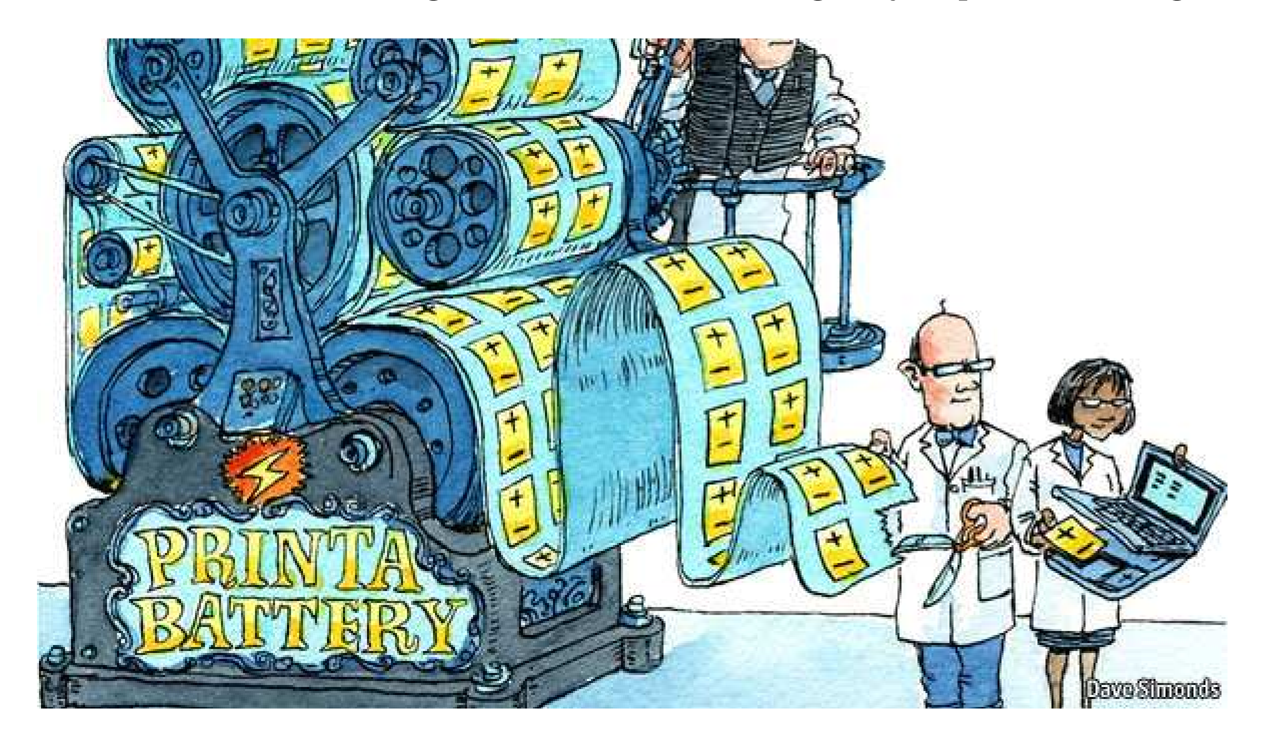
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Solid-state batteries

The power of the press

Jan 27th 2011 | *ORLANDO, FLORIDA* | from PRINT EDITION

A new process will make solid-state rechargeable batteries that should greatly outperform existing ones



ELECTRONICS made a huge leap forward when the delicate and temperamental vacuum tube was replaced by the robust, reliable transistor. That change led to the now ubiquitous silicon chip. As a consequence, electronic devices have become vastly more powerful and, at the same time, have shrunk in both size and cost. Some people believe that a similar change would happen if rechargeable batteries could likewise be made into thin, solid devices. Researchers are working on various ways to do this and now one of these efforts is coming to fruition. That promises smaller, cheaper, more powerful batteries for consumer electronics and, eventually, for electric cars.

The new development is the work of Planar Energy of Orlando, Florida-a company spun out of America's National Renewable Energy Laboratory in 2007. The firm is about to complete a pilot production line that will print lithium-ion batteries onto sheets of metal or plastic, like printing a newspaper.

"Thin-film" printing methods of this sort are already used to make solar cells and display screens, but no one has yet been able to pull off the trick on anything like an industrial scale with batteries. Paradoxically, though thin-film printing needs liquid precursor chemicals to act as the "ink" which is sprayed onto the metal or plastic substrate, it works well only when those precursors react to form a solid final product. Most batteries include liquid or semi-liquid electrolytes-so printing them has been thought to be out of the question. Planar, however, has discovered a solid electrolyte it believes is suitable for thin-film printing.

Charge!

A battery's electrolyte is the material through which ions (in this case lithium ions) pass from one electrode (the cathode) to another (the anode) inside a battery cell. Electrons prised from those ions make a similar journey, but do so in an

external circuit, usually through a wire. That means the energy they carry can be employed for some useful purpose. Push electrons through the wire in the opposite direction and the ions will return to their original home, recharging the battery.

Many sorts of ion can be used in batteries, but lithium has become popular in recent years because it is light. Rechargeable batteries based on lithium chemistry store more energy, weight for weight, than any other sort. In the case of a lithium-ion battery the electrolyte is usually in the form of a gel. It is possible to make such a battery with a solid electrolyte, but until now that has been done by a process called vacuum deposition. This uses complex and expensive machinery to build up atomic layers of material on a substrate. Batteries made this way tend to be small and costly, suited for specialist devices like sensors. To be any use in consumer electronics, and especially electric cars, solid-state batteries would need to be bigger and capable of being cranked out in greater numbers.

What Planar has come up with is a ceramic electrolyte which it says works as well as a gel. It can print this electrolyte (along with the battery's electrodes) onto a sheet of metal or plastic that passes from one reel to another in a process similar to that used in a traditional printing press. Nor does it have to be done in a vacuum. Once printed, the reels can be cut up into individual cells and wired together to make battery packs.

For the cathode, Planar uses lithium manganese dioxide; for the anode, doped tin oxides and lithium alloys. For the crucial solid electrolyte it turns to materials called thio-LISICONs-shorthand for lithium superionic conductors. Exactly which thio-LISICON is best needs further investigation, but the principle certainly works.

The crucial trick is that although both the electrodes and the electrolyte appear solid, they are actually finely structured at the nanometre scale (a nanometre is a billionth of a metre). This is to allow the lithium ions free passage. Getting the materials in question to settle down in an appropriate arrangement has taken blood, sweat and tears but Planar's scientists think they have cracked the problem.

The "inks" they use to print their battery cells are waterborne precursor chemicals that, when mixed and sprayed onto the substrate in appropriate (and proprietary) concentrations and conditions, react to form suitably nanostructured films. Once that has happened, the water simply evaporates and the desired electronic sandwich is left behind in a thousandth of the time that it would take to make it using vacuum deposition.

Printing batteries this way also offers the possibility of incorporating other thin-film devices, such as ultracapacitors, directly into the cells. An ultracapacitor is an electricity-storage device that can be charged and discharged rapidly. In electric cars, ultracapacitors can capture energy from regenerative braking and use it for fast acceleration.

Planar says its cells will be more reliable than conventional lithium-ion cells, will be able to store two to three times more energy in the same weight and will last for tens of thousands of recharging cycles. They could also be made for a third of the cost.

Material benefits

These are bold claims, but as Scott Faris, Planar's boss, points out, a lot of the benefits come from savings in materials. About half of a typical lithium-ion battery is made of stuff that plays no direct part in the battery's chemistry. This includes a stout casing and what is known as a permeable polymer separator, which stops the electrodes in the cell touching each other and causing a short circuit. Thin-film technology eliminates the need for so much casing, and Planar's solid-state electrolyte doubles as a separator. The result, says Mr Faris, is that 97% of the materials used to construct a Planar cell are actively engaged in storing electricity.

If the pilot production line is successful, the company hopes to begin operations in earnest in about 18 months. To start with it will make small cells for portable devices. It will then scale up to larger cells and, in around six years' time, it hopes to be producing batteries powerful enough for carmakers. If, by then, anyone needs a replacement battery for a Chevy Volt, such technology may offer a solid-state alternative that could increase that car's all-electric range from about 65km (40 miles) to some 200km. Lack of range is reckoned one of the main obstacles to the widespread use of electric cars. If solid-state batteries could overcome such range anxiety that would, indeed, be a revolution on a par with the silicon chip.

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Military communications

Liquid radio

Jan 27th 2011 | from PRINT EDITION

America's navy is developing an antenna made of seawater



Sticking out like a hundred sore thumbs

A BIG American warship bristles with more than 100 large copper antennae that send and receive signals for its weapons, its radar and its voice and data communications. A lot of aerials, then, but still not enough. The navy wants its ships to carry even more of them. Fulfilling that desire has, however, stymied experts for decades. If placed too close together, antennae interfere with each other's signals. They also get in the way of aircraft and weapons. And, crucially, naval antennae-many of them more than 20 metres tall-make warships more easily visible to enemy radar.

At the American navy's Space and Naval Warfare Systems Command (known as SPAWAR for short), in San Diego, a team of more than 30 engineers is trying to solve such problems. In 2007 the team's leader, Daniel Tam, thought of a possible answer, appropriately enough, while taking his morning shower. The sodium and chloride ions in salt water conduct electricity. Could a spout of seawater, he mused, replace a metal antenna?

After a trip to a hardware store, Mr Tam discovered that indeed it could. With an $80 water pump, a $15 rubber hose and a $20 electrical device called a current probe that was easily plugged into a hand-held radio, he produced a spout roughly four metres tall from the waters of San Diego Bay. With this he could send and receive a clear signal. Over the intervening years his invention, dubbed the "pee antenna" by incredulous colleagues, has been tweaked and improved to the point where it can transmit over a distance of more than 50km (30 miles).

To make a seawater antenna, the current probe (an electrical coil roughly the size and shape of a large doughnut) is attached to a radio's antenna jack. When salt water is squirted through the hole in the middle of the probe, signals are transferred to the water stream by electromagnetic induction. The aerial can be adjusted to the frequency of those signals by lengthening or shortening the spout. To fashion antennae for short-wave radio, for example, spouts between 18 and 24 metres high are about right. To increase bandwidth, and thus transmit more data, such as a video, all you need do is thicken the spout. And the system is economical. The probe consumes less electricity than three incandescent desk lamps.

A warship's metal antennae, which often weigh more than 31/2 tonnes apiece, can be damaged in storms or combat. Seawater antennae, whose components weigh next to nothing and are easily stowable, could provide handy backups-and, eventually, more than backups. Not all of a ship's antennae are used at once, so the spouts could be adjusted continuously to obtain the types needed at a given moment. According to SPAWAR, ten such antennae could replace 80 copper ones.

Fewer antennae mean fewer things for enemy radar to reflect from. Seawater is in any case less reflective of radar waves than metal. And if a ship needed to be particularly stealthy (which would mean keeping its transmissions to a minimum), her captain could simply switch the water spouts off altogether.

One disadvantage of water spouts is that they can be torn apart by the wind. SPAWAR's researchers have, however, found that their antennae work just as well if encased in a plastic tube. The tube can be sealed at the top so that the water goes up the middle, bounces off the top and then trickles down the inside of the tube's wall to the bottom, where it may be recycled.

That innovation also means that SPAWAR's invention need not be restricted to the navy. The closed-tube design allows saline aerials to be deployed on land, too. Indeed, one has already been tested successfully by a group of marines. It worked, as expected, with brine made from fresh water and a few pinches of salt. But if salt is not to hand, never fear. It also worked fine when the spout was fed with Gatorade.

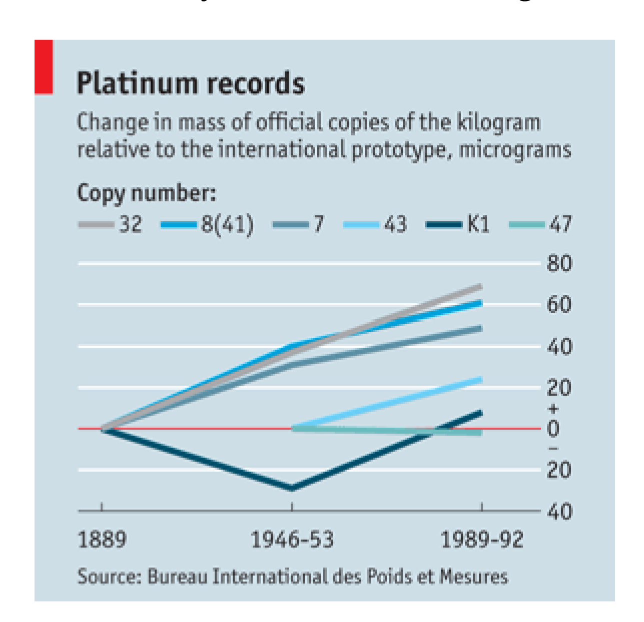
Weighing a kilogram

The constant gardeners

Jan 27th 2011 | from PRINT EDITION

Metrologists will soon try to redefine the scientific world's unit of mass

"HOW much does a kilogram weigh these days?" may sound an odd question. Does a kilogram not weigh just that, a kilogram? In fact, a kilogram is the mass of a cylindrical lump of platinum-iridium alloy that was cast in 1879 in Hatton Garden, the jewellery district of London, and then dispatched to the International Bureau of Weights and Measures (BIPM) in Sevres, near Paris. It sits there still, nestled beneath three cheese-domelike bell jars in a safe that can be unlocked (though it rarely is) only by turning a set of three keys, each entrusted to a high-ranking BIPM dignitary.



Despite such precautions, the international prototype does not rest entirely unperturbed. On those occasions when it has been compared with some of its official copies, discrepancies of up to 69 micrograms-slightly smaller than a grain of sand-have been observed (see chart). Since there is no reason to believe that "the" kilogram is inherently more stable than any of its cousins, it is either shedding weight through wear and tear or putting it on through chemical processes such as those involved in cleaning the thing.

In a world increasingly dependent on precise measurements, metrologists think such inconstancy no longer cuts the mustard. On January 24th, therefore, they gathered at the Royal Society, in London, to discuss progress towards recasting the kilogram in terms of something less mercurial than a platinum-iridium alloy. And what better to do the job than the fundamental constants of nature which are, after all, by definition, constant?

The kilogram is the last bit of the International System of Units (SI) to be tied explicitly to an artefact. Once, the metre was too. It was the length of another platinum-iridium ingot stored in Sevres. But the metre has been redefined twice since that ingot was deposited in 1889: first, in 1960, in terms of the wavelength of a particular sort of light; then, in 1983, as the path travelled by light in a vacuum in 1/299,792,458 of a second. Which, of course, raises the question of what a second is. Not, as you might think, a sixtieth of a sixtieth of a twenty-fourth of the period of the Earth's rotation. No. A second is the duration of 9,192,631,770 periods of a phenomenon called microwave transition in an atom of caesium-133. The remaining four basic SI units, the ampere (electricity), kelvin (temperature), mole (quantity of atoms, molecules or other particles) and candela (light), followed suit-though the ampere, candela and mole are linked to the kilogram, and so indirectly to the Sevres prototype.

On a steady Planck

The reason why the kilogram has taken so long to ditch its historic deadweight is that Planck's constant (*h*), the most promising candidate for its remodelling, pertains to the subatomic scale. On that scale, strange things happen and particles start behaving like waves. Planck's constant is the number that links the energy of a particle with the frequency of its associated wave. It reflects the sizes of the quanta of quantum physics. A quantum is the minimum amount of a physical entity involved in a physical process. That is something very small indeed-many orders of magnitude smaller with respect to the kilogram than, say, a metre is compared with the distance travelled by light in a second. And that makes it rather difficult to measure.



The big cheese

The favoured way of measuring *h* in terms of mass employs a device called a watt balance. The mass is suspended from one arm of the balance. The other arm carries a wire coil attached to an electric circuit-in other words, an electromagnet. The coil is suspended in an external magnetic field and the current running through it adjusted so that the attraction between the two magnets balances the gravitational force on the suspended mass.

Then, the experiment is repeated without the suspended mass. Instead, the coil is pulled through the external magnetic field, which induces a voltage across it. By combining data from the two steps an equation linking mechanical power (dependent on mass) to electrical power (calculated by multiplying voltage by current) can be derived. Both types of power are balanced and expressed in watts, which explains the experiment's name. From that, through a complicated and rather tiresome procedure involving phenomena known as the Josephson effect and the quantum Hall effect, it is possible to express electrical power in terms of *h*-and so, to calculate *h* in terms of the balanced mass.

When the uncertainty of this calculation is reduced to about one part in 100m, which metrologists hope will happen over the next few years, the experiment will be performed with the Sevres prototype-that is, with a mass of precisely one kilogram. The resulting reading for *h* will be fixed by fiat and, with it, the Planck-related definition of the kilogram. A kilogram will then be any mass which elicits a reading for Planck's constant on a watt balance that coincides with the now-fixed value.

All this sounds much more complicated than weighing from time to time a piece of metal stowed away in a vault. But unlike that, the watt-balance experiment can be performed by anyone at any time provided they possess the right equipment and expertise. This ensures that the new kilogram will be a truly universal and immutable standard, set in something much firmer than stone, or even platinum: the fundamental laws of nature.

The Richard Casement internship

Jan 27th 2011 | from PRINT EDITION

We invite applications for the 2011 Richard Casement internship. We are looking for a would-be journalist to spend three months of the summer working on the newspaper in London, writing about science and technology. Our aim is more to discover writing talent in a science student or scientist than scientific aptitude in a budding journalist.

Applicants should write a letter introducing themselves and an original article of about 600 words that they think would be suitable for publication in the Science and Technology section. They should be prepared to come for an interview in London or New York, at their own expense. A small stipend will be paid to the successful candidate.

Applications must reach us by February 25th. These should be sent to: casement2011@economist.com

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The exercise of power

Running the world

Jan 27th 2011 | from PRINT EDITION

Two very different blueprints for power in the 21st century

How To Run the World: Charting a Course to the Next Renaissance. By Parag Khanna. *Random House; 256 pages; $26.* Buy from Amazon.com

The Future of Power. By Joseph Nye Jr. *PublicAffairs; 320 pages; $27.95 and pound16.99.* Buy from Amazon.com, Amazon.co.uk



SOME books about global politics charge at you full tilt, brandishing a radical idea for changing the world. Others pick their way through the nettles. The romantic in every reader yearns for a new order to sweep aside the impediments of the old. The sceptic knows that life is complicated. Both sorts of books have their strengths, but-on the evidence of two new accounts of 21st-century power-caution has the upper hand just now.

The term "sweeping" hardly does justice to the ambition of Indian-born Parag Khanna. In his third book, "How to Run the World", Mr Khanna, a pundit and think-tanker at the New America Foundation, sets out to diagnose the failings of today's diplomacy and treat them with his own formula for global governance.

The world today is neo-medieval, Mr Khanna believes. Power no longer lies in the bony hands of a few white Western bureaucrats and politicians. It has become geographically and politically fragmented. In the Middle Ages the church rivalled kings and emperors. Today the West shares influence with rising nations, like China and Brazil, with companies large and small, and with NGOs.

In this new reality, old-fashioned state-to-state diplomacy cannot get things done. It is too slow, too rigid and it fails to galvanise the resources to hand. Hence Mr Khanna recommends what he calls "mega-diplomacy". When government, business and NGOs work together, everyone can be a diplomat, he argues. When "dot.com and dot.org" interact with "dot.gov", he says, real progress is the result. Governments can create the conditions for a better world by providing public goods such as security; companies innovate and finance bright ideas, and NGOs supply the accountability that binds the system together.

In a bit over 200 pages of breathless prose Mr Khanna applies his formula to everything from global warming to Middle East peace and solving world poverty. You can forgive Mr Khanna for failing to put the world to rights entirely-his solution for Israel and Palestine, for example, looks little different from today's gridlock. And he has a point, though not a terribly original one, when he says that the modern world has so many new actors that Western power is circumscribed.

But Mr Khanna's analysis draws him to some odd conclusions. His doubts about the capacity of the state lead him to advocate secession on a vast scale. The map of Africa is indeed scarred by the straight lines of empire. However, you cannot break up countries like Nigeria or Congo without appalling bloodshed.

Mr Khanna's faith in enlightened self-interest occasionally strays into wishful thinking. The companies and NGOs that he approvingly cites in example after example may indeed be doing good. But the book fails to probe the limits of their philanthropic impulse-how some causes are over-represented to the neglect of others, how charity can be a vehicle for ideology, and how the objects of charity are vulnerable to exploitation. For instance, Mr Khanna's worldview has no room for the recent controversy over profiteering among microfinance lenders.

If, amid the folksy examples and the relentless one-liners of "How to Run the World", you find yourself hankering after sturdier fare, then salvation is at hand in the form of Joseph Nye's painstaking new work, "The Future of Power". As Mr Khanna might have put it, just ditch the vigorous and plug into the rigorous.

Mr Nye is everything that Mr Khanna might wish one day to become: doyen of Harvard foreign-policy analysts, elite Washington public-servant, celebrated author. "The Future of Power" is a grand title for a book with an essentially modest ambition-but one that contains a fundamental lesson, nonetheless.

For much of the book Mr Nye sets out a taxonomy of 21st-century power. He considers the nature of power, stressing how it equals not just the capacity to coerce, but also to set agendas and condition other countries' ambitions. He assesses military power: it still has its place, but whenever advanced states are dealing with each other, armed force is a less useful tool than it was in earlier times. He examines the utility of economic power, including sanctions and natural resources. And he reclaims soft power from all those whom he thinks have misused the concept in its journey from academic textbook to newspaper editorial. Soft power is not just wishy-washy cultural affinity, but a state's ability to persuade, attract and set the terms of debate for other countries.

This is all worthy stuff. But the book comes alive when Mr Nye uses it as the foundation to cast doubt on the idea that America is in precipitate decline. In his opinion the claim is bandied about by people who have not thought clearly about what they are saying. American military power is still dominant. Europe and Japan will remain firm allies, and India will probably become one. China is rising, but with its low economic output per head, it bears no comparison to Germany at the end of the 19th century.

Mr Nye warns against complacency. America is prone to bouts of declinism. It is sometimes tempted to cut itself off from the world. The burden of American debt is growing and its political system is in a mess. And yet Mr Nye thinks that the country's difficulties can be resolved, just as they have been in the past. His programme of "smart power" has America assessing its situation and applying hard and soft power to meet the threats it faces. He argues that America needs to work with other countries to build a strong economy and cope with the environment and terrorism, including nuclear proliferation. It needs to be mindful of dangers, such as militant Islam. And it needs to look outwards and to play its part in the world with confidence.

Unlike Mr Khanna, Mr Nye will not make your pulse race. But he is more likely to leave you convinced.

American political fiction

Earmarked

Jan 27th 2011 | from PRINT EDITION

Beltway bacchanalia

O: A Presidential Novel. By Anonymous. *Simon & Schuster; 353 pages; $25.99 and pound12.99.* Buy from Amazon.com, Amazon.co.uk



The story of O

ANONYMOUS has been at it again. In 1996 Washington was abuzz with gossip about a novel about the 1992 Democratic convention and the rise of the Clintons. The author, identified on the book jacket simply as Anonymous, was later unmasked as Joe Klein, a former *Newsweek* columnist.

Fifteen years on, Barack Obama's re-election is the backdrop for a new novel, "O". This Anonymous, the publishers claim, is someone who has been in the room with Barack Obama, though whether that's the men's room or a ballroom, they are not saying. Mr Klein is unlikely to be repeating himself, and in any case "O" has none of his wit. But there is no shortage of other potential pen-wielding copycats.

The action begins in the spring of 2011 and goes on until the eve of polling day in 2012. The clever young buck from Chicago who wanted to clean out the snakepit that is Washington politics has had two long years to learn that real change is as unrealistic there as snow in August. The self-serving habits of the lawyers, consultants and political hacks are just too entrenched. The wife of America's first black president and their two small daughters have suffered living in the goldfish bowl. But that doesn't dim the president's ambition to keep them all in the White House for another four years. When O tells his wife, "I couldn't do this without you," she often replies, "I wish you could."

Anyone suffering withdrawal symptoms from the end of "The West Wing" will enjoy this sweaty hustle among rumpled advisers, maverick donors and ambitious staff who steer the campaign machine and guard the president's door, even if the characters are all cliches lined up. The main plot line, about the undoing of a candidate, is plausible (just) and the book is good on journalists and the conflict between the lazy, pompous old media and the new media that are hungry, looked down upon and dangerous. Overall, though, "O" is neither "Oh yes" nor "Oh no"; not as good as one would hope, nor as bad as one might have feared. Rather like Mr Obama himself.

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Innovation

The red menace, reconsidered

Jan 27th 2011 | from PRINT EDITION

Can American innovators stay ahead of rising Asian rivals?

Advantage: How American Innovation Can Overcome the Asian Challenge. By Adam Segal. *W.W. Norton; 288 pages; $26.95 and pound19.99.* Buy from Amazon.com, Amazon.co.uk

Open Services Innovation: Rethinking Your Business to Grow and Compete in a New Era. By Henry Chesbrough. *Wiley; 256 pages; $34.95 and pound23.99.* Buy from Amazon.com, Amazon.co.uk

WILL China eclipse America as the world's innovation powerhouse? And where will the good, well-paid jobs of the future come from in developed countries if Asia's rise continues? Those are the questions taken up by two thoughtful new books on innovation.

At the end of the second world war, American spending on research and development made up half the world's total; today, it has dropped to one third. South Korea, China and India are pouring tens of billions of dollars into scientific fields that range from genomics to nanotechnology. They are producing staggering numbers of engineers and scientists, who in turn are publishing lots of papers and acquiring ever more patents.

This suggests that Asian innovation will in time surpass America's. Not if Barack Obama has his way. In his recent State of the Union speech, he unveiled an innovation plan with these defiant words: "China is not waiting to revamp its economy...well, I do not accept second place for the United States." Adam Segal of the Council on Foreign Relations agrees. In "Advantage" he argues that America's "unipolar moment" in the global economy may be over, but Asia's rise does not necessarily foreshadow America's decline.

One reason for this is that innovation is not a zero-sum game. One company or country can benefit from the development and marketing of a clever invention, while the robust diffusion and adoption of such inventions can also benefit many others. Mr Segal offers two other broad reasons to think America's economy will remain on top. While accepting that Asia will probably surpass America in absolute spending and sheer numbers of graduates, he remains sceptical about the foundations of Asian innovation. He points to troubling evidence that challenges the quality of the many patents, papers and engineering degrees seen in India and China.

His second, and more striking, argument is that the challengers lack America's resilient, open and risk-taking culture. America must shore up this defence, he insists, pointing to policies that will encourage immigration and early-stage investment in firms, and hasten ideas from universities to the marketplace. With such tweaks, America's Schumpeterian approach will fare better than the brittle, top-down innovation policies seen in Asia.

That will come as cold comfort to the millions out of work in Europe and America today, thanks in part to companies shifting jobs to countries in Asia. As China and India become better at innovation, where will the good jobs come from in America and Europe? Services, says Henry Chesbrough of the University of California. Forget the old obsession with products and technology, he insists. Already, services make up some four-fifths of the American economy, and some 60% in other OECD economies. The share in poor countries is much smaller.

Citing many examples, from Amazon to GE, Mr Chesbrough shows how even stodgy industries like steel and industrial machinery are becoming knowledge industries. The key is to develop a platform of related services that engages customers with products. Motorola's Razr was a blockbuster mobile phone, but faltered because it failed to develop an ecosystem of services around it the way Apple did with its iPhone and App store. "Innovating in services is the escape route from the commodity trap," says Mr Chesbrough.

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Thinkers in history

Philosophy as inspiration

Jan 27th 2011 | from PRINT EDITION

The consolations of understanding

Examined Lives: From Socrates to Nietzsche. By James Miller. *Farrar, Straus and Giroux; 432 pages; $28.* Buy from Amazon.com



Aristotle and the quest for understanding

THE unexamined life is not worth living, or so Socrates famously told the jury at his trial. He neglected to mention that the examined life is sometimes not all that wonderful either. In 11 biographical sketches of thinkers who tried to tread in Socrates's footsteps, plus one on Socrates himself, James Miller explores what it means to follow the philosophical calling. Much trouble and uncertainty seems to be the answer, and some of the most famous philosophers turn out not to be all that admirable or convincing, he finds. So can philosophy inspire a way of life? That is one question raised by Mr Miller, who teaches politics and liberal studies at the New School for Social Research in New York.

Fortunately, Mr Miller does not press that question too hard. Any attempt to draw an all-encompassing moral from the lives he examines would have distorted the stories he has to tell. What we get instead is a vivid set of philosophical tales that are notable for their judicious use of sources, including rare early works. The result is a fresh treatment of subjects who are often served up stale. Even Immanuel Kant, whose writings were justly described by Heinrich Heine, a poet, as having "the grey dry style of a paper bag", emerges as human.

If one wanted to compile a charge-sheet against the great philosophers, to show that they were unfit to lead their own lives, let alone inspire others, this book could provide some useful evidence. There are Plato's disastrous dealings with Dionysius the Younger, the tyrannical ruler of Syracuse, and Seneca's hypocritical fawning over Nero. We hear of Aristotle's support for Alexander the Great's cruel imperialism, which sits uneasily with the philosopher's professed political ideas. Rousseau, who preached on education, abandoned his five children by his long-term mistress, and made pathetic excuses for doing so (he was too ill and poor to be a good father, and a foundlings' home is not such a bad place to grow up, anyway).

St Augustine turned against the spirit of intellectual inquiry once he had found salvation, and his dogmatic invective laid the foundations for centuries of intellectual tyranny by the Catholic church. Montaigne was a master of the suggestive non sequitur and the self-contradiction. The thinking of one orator-mystic, Ralph Waldo Emerson, an admirer of Montaigne's, was "untethered", as Mr Miller puts it, from empirical evidence or logical argument. Kant's conception of morality as a matter of rigid adherence to strict principles emerges as partly an intended remedy for his own hypochondria. Nietzsche confessed in 1880 that his existence was "a fearful burden", though he was at least happier than before, because of progress in his work.

Feet of clay, indeed; but Mr Miller does not chide his dozen unduly. Most of them were, after all, aware of their shortcomings, and did not (except for Nietzsche, in some madder moments) present themselves as prophets or saints. At the end of his life, Rousseau acknowledged that it was not nearly so easy as he had assumed to follow the Delphic oracle's injunction to "Know thyself." He concluded ruefully that it was "arrogant and rash" to profess virtues that you cannot live up to, and retreated into indolent seclusion.

If Mr Miller had included the sunny and admirable David Hume and some other less troubled souls in his portraits, his gallery of philosophers could have been brighter overall. But on balance, the summation in his epilogue is probably correct: philosophical self-examination is not a reliable source of happiness or political nous. Still, there are many

philosophers, including Aristotle, who regarded the quest for understanding as an end in itself, not as a path to joy or success. After all, as most of those who have been bitten by the philosophy bug will know, philosophers philosophise mainly because they cannot help it.

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The post-war world

Coming together

Jan 27th 2011 | from PRINT EDITION

How the UN was created

America, Hitler and the UN: How the Allies Won World War II and Forged a Peace. By Dan Plesch. *I.B. Tauris; 256 pages; $35 and pound20.* Buy from Amazon.com, Amazon.co.uk

THE United Nations began soon after the second world war, at a conference in San Francisco, in a blaze of never-again idealism, amid hopes that all future aggressors could be nipped in the bud. That is what most people with a vague knowledge of diplomacy think they remember.

In fact, as Dan Plesch, a British historian and security analyst, points out in this closely argued and compelling book, "America, Hitler and the UN", both the term "United Nations" and the ideal it embodied go back further. To see how much further, read *The Economist* of January 31st 1942, which reported that "the most comprehensive system of international association the world has yet seen" was in prospect after talks between Winston Churchill and Franklin Roosevelt on cementing the anti-Axis alliance. The problem, we noted, was how "to mobilise the resources of all the United Nations".

It was Roosevelt who had coined the term "United Nations" a few weeks earlier. When it occurred to him, he rushed, in his wheelchair, to Churchill's bedroom in the White House; he was eager to share his idea with his British guest, who was busy drying himself. "Good!" said the prime minister, whose naked form reminded Roosevelt of a "pink cherub".

This was more than bathroom banter. Roosevelt understood-even in those very early weeks of his stand-off against Japan-that the war must be pursued not in the name of narrow national interests, but for some broader ideal. The raw material already existed. In August 1941, when America was still neutral, Roosevelt and Churchill had issued an Atlantic Charter, speaking of free trade, non-aggression and democracy. That language fed into a declaration issued on New Year's Day, 1942, in the name of the "United Nations", consisting of America, Britain, the Soviet Union and 23 other governments that had lined themselves up against the Axis.

Mr Plesch argues that the best features of the post-1945 order-not just the UN, but also the Bretton Woods agreements and Marshall Plan-have their roots in the relatively disinterested economic and military solidarity which the "United Nations" showed one another in the heat of war.

For anyone probing the origins of today's global order, the book's most interesting parts have to do with international justice. Here again, it argues, conventional wisdom misleads. Most people assume that the post-1945 understanding of crimes against humanity has its origins in the trials of Nuremburg and Tokyo; the International Criminal Court (ICC), to which most countries, though not America, Russia or China, now belong, is seen as a child of Nuremburg.

Mr Plesch corrects this half-truth. The real antecedent of today's war-crimes tribunals is an honourable but little-known body that was established in October 1943 and closed in 1948-the 17-nation United Nations War Crimes Commission (UNWCC). With a secretariat in London, this small, robust agency worked to establish the idea that "war crimes" could include atrocities perpetrated by tyrants against their own citizens. However obvious that might seem now, the notion was resisted by those in Britain and America who felt that it violated an ancient principle of non-interference in other countries' domestic affairs. But the commission fought back, drawing moral support from Jewish and Christian leaders, and the exiled governments of small European states. In some ways stronger than today's ICC, the commission was a

clearing house for evidence on war crimes, and a debating forum for the definition of such crimes; above all it helped national courts to try egregious atrocities.

The commission's files, now in New York, are hard to access. Mr Plesch believes its closure in 1948 reflects a change in policy by Germany's American occupiers who in 1947, for example, recruited a former Gestapo chief, Klaus Barbie, as an agent.

The book argues convincingly that the work of the UNWCC was in many ways more important than that of the Nuremburg tribunal. But what does that imply for international justice 60 years later, as the ICC still struggles to achieve credibility? Some may simply conclude that today's Hague-based court needs boosting. But perhaps a better way of honouring the UNWCC would be to emulate its best achievement: offering practical support to national judiciaries which are struggling, against multiple odds, to deal with war crimes committed on their soil. In 2011, as in 1943, efforts to outlaw and punish the most horrific deeds need to be pragmatic, and well-adapted to local realities, as well as spectacular and utopian.

Art in Tasmania

Something new

Jan 27th 2011 | *MOORILLA, TASMANIA* | from PRINT EDITION

Australia welcomes the biggest private museum in the southern hemisphere



Produces excrement daily at 3pm

TASMANIA'S Museum of Old and New Art (MONA), housed in an underground building hewn from a sandstone cliff, is as surprising as the man behind it. David Walsh, a mathematical savant and university dropout, is a professional gambler, part of a syndicate that bets around $1 billion a year using complex computer-gaming systems he helped to create.

Mr Walsh has poured his winnings into Moorilla, an estate on the River Derwent, 12km north of the Tasmanian capital, Hobart, which includes a vineyard, microbrewery and restaurant. Since January 21st, it also has a new museum, with 6,000 square metres of exhibition space spread over three floors, to show Mr Walsh's collection of antiquities, Australian modernist painters, and international contemporary art. Entry is free.

"The museum is my soapbox and I've got one hell of a megaphone," says Mr Walsh who refers to MONA as a "subversive Disneyland". MONA is part Tate Modern, part theme park, a showcase that uses art to explore the human condition. There are works that examine bodily functions. One, entitled "Cloaca Professional" (pictured), by a Belgian artist, Wim Delvoye, mimics the human digestive system: it is fed by curators and produces excrement every day at 3pm. Another, "Locus Focus", by an Austrian collective, Gelitin, is an unmarked toilet in a row of cubicles which uses mirrors to give you a close-up view of your body in action. There is also a sex-and-death gallery with the mutilated body of a Palestinian suicide-bomber sculpted in chocolate and a replica of a medically assisted suicide-machine. The display is typical. As Tasmania considers the legalisation of euthanasia, Mr Walsh tackles the subject head on.

But he is not always, or not only, provocative. The centrepiece of the show is "Snake", an iconic piece by Australia's best-known modernist, Sidney Nolan, which has hardly been displayed since it was created in 1971. Composed of 1,620 individual panels, it is shown on a 45-metre curved wall built specially for the work.

Unlike traditional displays, the art is not placed chronologically. Egyptian mummies, for example, are shown near Chris Ofili's controversial "Holy Virgin Mary", a canvas decorated with elephant dung, that was part of Charles Saatchi's "Sensation" exhibition. There are no wall labels; instead visitors are given iPods with information on the artworks.

What this amounts to is a monumental cabinet of curiosities reflecting the interests of one man. "MONA is David's life," says Mark Fraser, director of Mr Walsh's art operations. He's not kidding. Mr Walsh has a flat concealed inside the museum (a window in his floor lets him look down on the Nolan gallery). He has also placed his father's ashes in the gallery's spectacular atrium. Although Mr Walsh says he hopes MONA will be controversial, judging by the early visitors, so far Tasmanians are more delighted than outraged.

John Gross

Jan 27th 2011 | from PRINT EDITION

John Gross, man of letters, died on January 10th, aged 75


Writer pictures

IN THE heady years of his adolescence, John Gross sometimes fantasised that he might read everything. He would work, with slow but gathering excitement, through the plays of Shakespeare, the novels of Tolstoy and the teeming streets of Dickens. He would bathe in Keats's "Hyperion", bounce through the limericks of Lear, linger in the "uplifting gloom" of Gray's country churchyard. Not only that, but he would browse the faintly carbolic-smelling columns of the *British Medical Journal*, and scoff a hundred cow pies with the *Dandy*'s Desperate Dan. But even as he imagined this, standing in

some London bookshop where every shelf sagged, sheer panic would take the books and toss them in the air in swarms, like the playing cards at the end of "Alice in Wonderland". Sadly, his task was impossible.

Yet it seemed to his many friends that he must have managed it, somehow. If you asked for a poem that featured fountain pens he would find not one, but six. Mention some minor literary figure-Churton Collins, say-and he would wonder if you knew that when he died by drowning in 1908, some lines from Langland's "Piers Plowman", about resting "by a bourne side", were found in his pocket. Drop another literary clue, and he would produce not one but all the verses of "Two Lovely Black Eyes". And all this might occur in the course of a single, interweaving, almost fugal conversation which had begun with a beaming look through the large glasses and the words, spoken softly, "Did I ever mention that David Hare told Ferdinand Mount that I was an illiterate dickhead?"

Mr Gross's love of letters embraced almost everything. It was never limited to books, though he was books editor for the *Spectator*, the *New Statesman* and the *Times Literary Supplement*, and an in-house reviewer, from 1983 to 1989, for the *New York Times*. He rejoiced in anecdotes, gossip, jokes, slogans, hoardings, advertising jingles ("Idris when I's dry"), popular songs. On meandering walks with friends through his childhood East End haunts he would point out both the streets where writers had lived and the old signs, for fresh milk or synagogues, fading on the walls. Favourite scraps from Masefield ("salt-caked smoke stack") rubbed shoulders with his father's Yiddish sighs at a life that wasn't too bad and wasn't too good: "*s'iz nit oy-oy-oy un nit ay-ay-ay*". And, for all the charm and emollience, he could produce sharp shards himself, such as the remark that listening to Margaret Atwood was like being driven back and forth through Winnipeg on a Sunday.

The title "man of letters", which he adopted for himself, was a consciously nostalgic one. He agreed, with Evelyn Waugh, that the species was almost extinct in the modern world, like maiden aunts. It was also a modest claim. As he explained in his entertaining book on the breed, "The Rise and Fall of the Man of Letters" (1969), it meant "a writer of the second rank, a critic, someone who aimed higher than journalism but made no pretence of being a major artist." The times had once been different, he reflected, as he sauntered through the lives of these mostly minor, mostly unremembered, finely moustachioed men: the public had hungered for intellectual guidance, literary references were commonly understood, and the book-loving man could set the critical and cultural agenda, as only media pundits could now.

Essays for Kit-Kats

He might have been an academic, being more than bright enough. But the iron grip of T.S. Eliot and F.R. Leavis on English literary criticism appalled him; he wanted to write what he pleased, as he pleased. "Unattached" was a good word. Even his spells as a literary editor felt too constraining. As for the *New York Times*, he could never get on with its pomposity. Behind their backs, he called its two chief executives "Potash and Perlmutter", after two bumblers in early Yiddish films.

His criticism, to many, seemed less brave. Aware that he was handling "the most explosive commodities in the world, praise and blame", he was sparing with both. He showed most boldness at the *TLS*, where he stayed for seven years and introduced signed reviews. Literature should be loved, he insisted, simply for itself, and not because it allowed "Mr Puff and Mr Sneer" to settle anonymous scores in his pages.

All down the years, the books also appeared. Only three-"A Double Thread", on his childhood, the "Man of Letters", and "Shylock"-dipped a toe in the creative pond. Otherwise, he edited: the Oxford Books of Aphorisms, Parodies, Literary Anecdotes and Comic Verse, and an anthology of pieces inspired by Shakespeare. Once again, these often featured the minor and neglected. Once again, they suggested that he had read and relished everything.

He still wished he could. When he tried to get back to the beginning of his bookmanship, it lay partly in a Jewish reverence for texts, partly in a facility at writing other boys' essays for Kit-Kats. But he also found himself thinking of inexplicable and almost magic events, of imaginings drawn from somewhere deeper than conscious memory. He knew he could not describe them. But perhaps others could. He decided then to keep humble, constant, happy company with the multitude of men and women who had tried to express such things. Somewhere lay the words.
